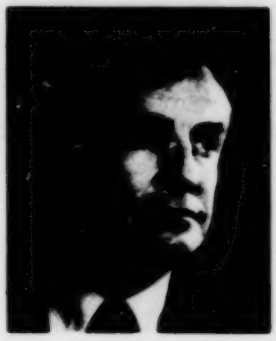
Alberta in Canada: Strength in Diversity

A Government of Alberta Discussion Paper

Foreword



In today's uncertain economic climate the long-term prospects for Canada are occupying the thoughts of Albertans and other Canadians. While no one can predict the future with certainty, Canadians are making an effort to identify national goals and are searching for the best means of realizing them. Fundamental questions face us. What type of economic system is most suitable to Canadian economic development? How can Canadians effectively realize Canada's full economic potential? What should be Canada's economic goals and objectives? What are the impediments to growth? What is the role of governments in the attainment of our goals and objectives? How can the economic actions of the federal and provincial governments be better coordinated in order to achieve the desired goals? What role do individual provinces have in developing economic strategies for Canada? If Canada is to realize its future economic potential, these questions must be addressed.

Many of the issues and perspectives presented in *"Alberta in Canada: Strength in Diversity"* have been recurrent themes of the Alberta government over the past decade. This discussion paper reinforces and augments previous positions and integrates them into a framework for making necessary changes to the federal system and enhancing Canada's future economic prospects.

The purpose of this document is to encourage a public dialogue on issues affecting the future economic prospects of this province and Canada as a whole. *"Alberta in Canada: Strength in Diversity"* explores the conditions which must be satisfied if the future economic and social well-being of Canadians is to be assured.

Peter Lougheed
Premier of Alberta
October 27, 1983

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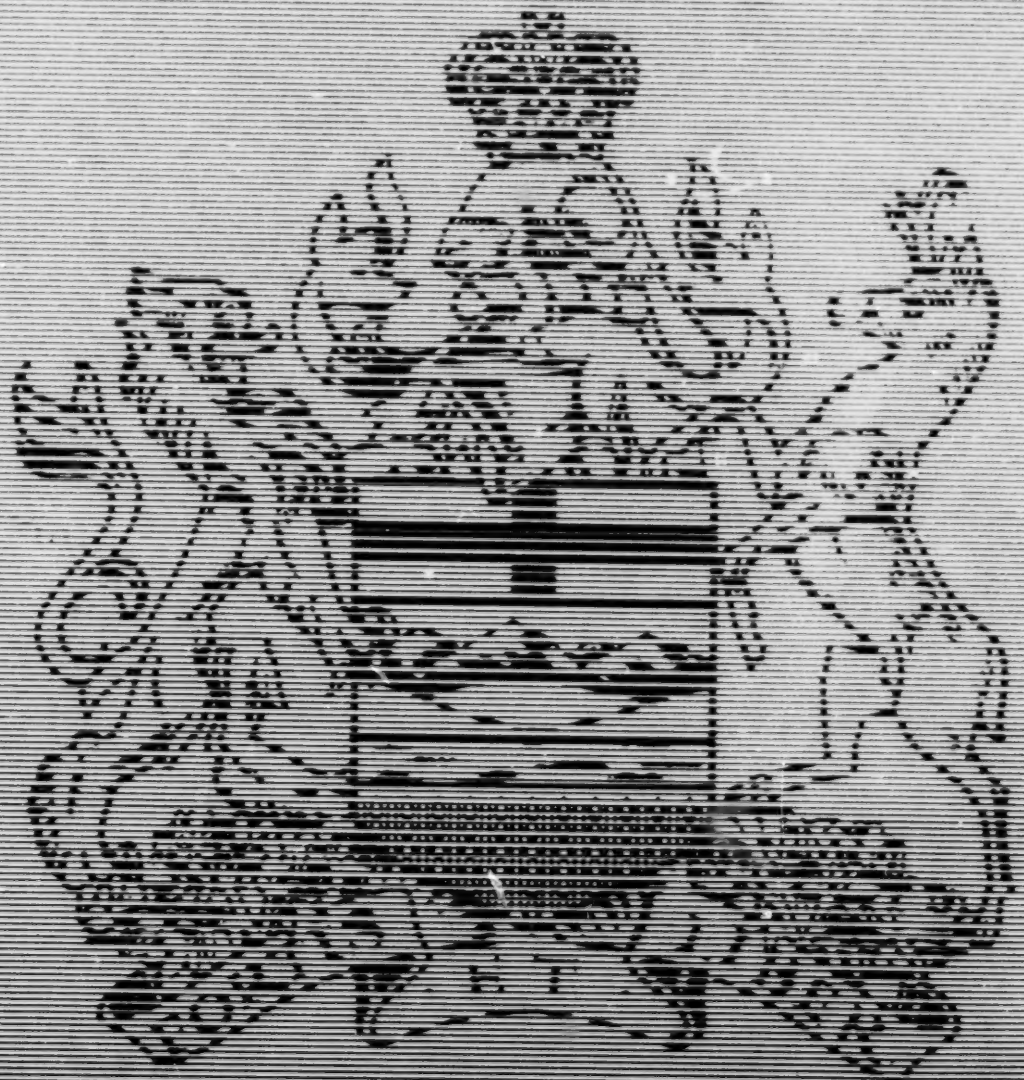
Highlights and Overview



Highlights

Alberta has vast potential and significant opportunities. Its natural strengths are considerable: rich farmland, vast energy resources, large tracts of forests, abundant water supplies, a varied and scenic countryside, thriving urban centres, and a creative, highly educated, and industrious populace. However, as a land-locked province with a relatively small population base, Alberta has faced some difficult problems in its efforts to build upon its natural strengths. To a considerable extent, these problems have been aggravated by federal trade, transportation, energy and economic development policies. The lack of capital available for investment within Alberta, and the reluctance of Canadian banks and investors to invest in Alberta, resulted in the need to attract foreign capital. This was particularly true in the development of the petroleum industry prior to the mid-seventies.

Historically, Alberta's prosperity has been dependent on international market forces for the sale of its key commodities — grain and, since 1947, crude oil and natural gas. Recognizing the need for some diversification and a more balanced pattern of economic growth in all regions of the province, the Government of Alberta, since 1972, has fostered an environment which has encouraged the private sector to build upon the province's strengths. A number of policy measures have been initiated which have provided the foundation for private sector initiatives and have reduced impediments to economic development. The basis for future development and growth has been laid.

Much of Alberta's current economic strength is dependent upon depleting natural resources. A unique challenge of the provincial government was to ensure that the income derived from the sale of these resources was equitably shared between present and future generations. In 1976, Alberta created the Alberta Heritage Savings Trust Fund to set aside a portion of resource revenues so that future generations of Albertans also could benefit from these resources. Its policy measures have included a "savings trust" philosophy, which has assisted in establishing an attractive investment climate and a mood of confidence regarding Alberta's economic opportunities.

Other policy measures and initiatives introduced by the Government of Alberta include:

- extensive trade promotion efforts both to assist Alberta industry in penetrating world markets, especially in the Pacific Rim, and to encourage investment in Alberta;
- support of research and development through such agencies as the Alberta Research Council, the Alberta Oil Sands Technology and Research Authority, the Food Processing Development Centre, and the Farming for the Future programme;

- stimulation of the growth of a scientific and academic community through the Alberta Heritage Scholarship Fund and the Alberta Heritage Foundation for Medical Research Endowment Fund;
- investment in the transportation system, such as purchasing grain hopper cars and inland terminals, supporting the development of port facilities in Prince Rupert and Vancouver, and expanding road and airport facilities;
- investment in the improvement and expansion of the irrigation system;
- investment in enhancing and renewing the forestry resource;
- establishment of recreational areas; and
- expansion of available capital through the Alberta Opportunity Company, Alberta Agricultural Development Corporation, Alberta Home Mortgage Corporation, and Vencap Equities Limited.

The private sector has responded to this climate for investment. It was instrumental in developing a petrochemical industry in Alberta, expanding the production and processing of forestry and petroleum products, bolstering the food processing industry, fostering a growing financial sector within the province, and enlarging the tourism sector. These successes provide a foundation upon which Albertans can build for the future. In order to realize fully our potential, however, greater efforts must be made to upgrade our resources within the province and to strengthen and expand our markets.

Overview

The purpose of *"Alberta in Canada: Strength in Diversity"* is to share with Albertans, and indeed with all Canadians, the views of the Alberta government on issues related to Canada's and Alberta's future economic prospects and the full realization of the province's and the country's tremendous economic potential.

- Several themes are developed throughout the paper:
  - because Canada is dependent on foreign markets, Canadians must take measures to meet the challenges of a world in which these markets are increasingly difficult to penetrate and maintain;
  - the private sector is the driving force of economic growth;
  - through increased productivity and economic growth, the economic and social well-being of Canadians can be improved;
  - governments have an important role to play in creating a positive climate for private sector initiative;
  - Canada's economic potential lies in recognizing and building upon the strengths of its provinces and regions; and
  - governments in Canada must renew their commitment to intergovernmental cooperation and consultation.

The Market Economy and Government-Private Sector Relations

- The private sector is the driving force of the Canadian economy. Only with a dynamic private sector can Canada achieve its economic and social goals.
- The size of government relative to the economy may have reached a level where it is incompatible with a dynamic private enterprise system. The governments' share of the Gross National Expenditure has doubled in the past 30 years. The Government of Alberta does not believe the government share of expenditure can be increased further. Canadians, therefore, must establish priorities for the services to be provided in the future by governments.
- An important issue to be addressed by Canadians is the appropriate degree of direct government involvement in the economy through Crown corporations, economic regulations, grants and subsidies.
- Direct government intervention in the economy through such federal policies as the National Energy Program and the Foreign Investment Review Agency have been imposed at a substantial cost to the Canadian economy. Such interventions must be corrected and not be repeated.

- Canada must re-assert its commitment to the market system and adopt policies which will improve its performance. Policies should not interfere with rewards to hard-working individuals and risk-takers and should encourage savings and investment. Profits — the reward for risk-taking and job-creating activities — must be recognized as a sign of economic vitality and growth.
- The basic role of governments in Canada should be to provide a stable environment which builds the confidence of the private sector and, therefore, allows economic benefits to be created in the most effective manner. Governments also have the responsibility to provide services which the private sector would not otherwise provide and to reduce disparities between regions and individuals.
- Social needs of Canadians cannot be met unless the economy is strong and vibrant. Programmes which are necessary to care for those who are unable to provide for themselves are an accepted responsibility of governments. The operating costs of social programmes cannot be met by borrowing on future generations, but only by appropriate revenue-raising measures which can be borne by a strong economy where profits and incomes are sufficient to bear these social costs.
- In fulfilling their economic responsibilities, governments must reduce the regulatory burden on the lives of citizens and the economy.
- In order to foster economic growth, government fiscal and economic policies must be stable, well-understood and, to the greatest extent possible, formulated in consultation with the private sector.
- Elimination of large, recurring government deficits should be an important goal of governments to prevent a resurgence of inflation and allow lower interest rates.
- Governments must work toward reducing artificial trade barriers within Canada.
- Governments should ensure that public sector wages follow, not lead, private sector wages.
- Governments also have a role in facilitating better relations between business and labour.

Intergovernmental Economic and Fiscal Relations

- Canada's vast size and its inherent social, cultural and economic diversity necessitates a federal system of government. Canada could not exist as a unitary state controlled by a single government remote from the people. The Alberta government believes strongly in the Canadian federal system, that there is strength in diversity, and that harmony in diversity can be achieved.
- Both orders of government should participate in the formulation of Canadian economic and fiscal goals and objectives.
- The high degree of interdependence between the federal and provincial governments in important economic and fiscal policy areas requires frequent intergovernmental consultation and cooperation.
- Intergovernmental relations must be understood and managed in ways which contribute to a stable and predictable environment. Some differences of opinion are inevitable in a federal system; indeed, such diversity can be a creative and dynamic force. However, excessive or unnecessary intergovernmental tensions reduce the effectiveness of the policies of both orders of government and serve to create uncertainty.
- A renewed commitment by all governments to cooperative federalism is necessary. In recent years, unilateral federal action has replaced joint planning; federal intrusion into areas of provincial constitutional responsibility has replaced federal-provincial coordinated activities.
- The 1976 federal-provincial negotiations on fiscal arrangements, concluding in a new funding arrangement for the major social programmes of hospital care, medical care and post-secondary education, were a hallmark of the spirit of cooperative federalism. The federal government's recent unilateral modifications of these cost-shared programmes has jeopardized their future effectiveness and, indeed, is threatening the unity of the country. The federal government is demanding greater involvement in programme delivery while reducing its financial obligations to the jointly funded programmes.

- The Alberta government proposes four principles as the basis for a renewed era of cooperative federalism. These are:
  - provincial economic diversity should be acknowledged as a source of strength in the Canadian economy;
  - both orders of government should have an appropriate share of revenues to carry out their constitutional responsibilities;
  - the constitutional responsibilities of each order of government should be understood and respected; and
  - coordination among governments should be increased where constitutional responsibilities are shared or where one government's actions are likely to have a significant impact on another.
- The Government of Alberta suggests a number of specific measures to improve the operation of Canada's federal system. These include:
  - a constitutional requirement that a First Ministers' Conference be held annually at a fixed time to ensure consultation and cooperation in the development of Canadian economic, fiscal and social strategies;
  - reforming the Upper House to ensure a greater degree of sensitivity to provincial and regional objectives, interests and concerns;
  - provincial participation in the composition of those Courts which have a responsibility to interpret the Constitution. In particular, provinces should have a role in the selection and appointment of members of the Supreme Court of Canada to ensure the composition of the Court reflects the federal nature of Canada;
  - limiting the use of the federal spending power in areas of provincial responsibility. In cases where the use of the spending power may be required to achieve important national goals, such as the alleviation of regional disparities, prior consultation and joint planning with the provinces are essential;
  - increasing the provincial share of joint federal-provincial tax revenues, so that the provinces have access to sufficient revenues to provide the major social programmes — such as health care and education — within their constitutional responsibilities; and
  - providing for provincial participation on federal economic boards and agencies, such as the National Energy Board, Canadian Wheat Board and Canadian Transport Commission, in order to ensure their sensitivity to provincial and regional needs and interests.

Building for the Future: Prospects and Prescriptions

- Canada is a trading nation. International trade is a critical component of Canada's economic activity. To enhance our international competitiveness, Canada must develop trade policies which will enable us to recapture and expand our share of international markets. The federal government, provincial governments and the private sector must work in a full partnership in the development of our national trade policy.
- Canada's trade policy must be founded on a movement toward freer trade. Protectionist trade policies initiated by Canada or our trading partners must be resisted.
- Canada must develop new structures, new approaches and new strategies in international marketing as part of its overall trade policy.
- The competitiveness of Canada's products is hindered by the lack of economies of scale, given the nation's small population, and vast distances to major markets. Governments, therefore, have a special role to serve as catalysts in the development and implementation of new marketing strategies.
- The achievement of Alberta's economic potential will benefit Canada as a whole. The Syncrude project, for example, provided extensive manufacturing opportunities for Canadian suppliers outside Alberta.
- The Government of Alberta is sensitive to the dangers of depending on certain major commodities for economic prosperity and recognizes the need for some economic diversification, primarily through upgrading or processing resources and products within the province.
- While Alberta's grain and livestock sectors have left the province less vulnerable to extreme boom and bust phenomena experienced by more wheat dependent economies, further strengthening of the agricultural processing sector is required.
- Provincial ownership of natural resources has provided, and will continue to provide, Alberta with further opportunities to diversify its economy.

- Alberta's greatest strength is its people. Changes in employment patterns reflect the growing importance of the role women play in the economy. All Albertans must be given the opportunity to participate in our economic development.

- Alberta is proud of its role as Gateway to the North, and is supportive of the efforts of the peoples of Yukon and Northwest Territories to develop and expand their economies. As dynamic parts of our evolving nation, Yukon and Northwest Territories should be supported in their quest for self-government.

- The basis of Alberta's economic strategy is to:
  - build upon economic strengths, both human and natural, including a high level of technical skills, low cost agricultural production, and vast reserves of available resources, such as natural gas and oil sands;
  - strengthen and expand the markets where Alberta products are and can be sold;
  - upgrade the degree of processing of Alberta's primary products;
  - continue to foster new areas of economic activity based on Alberta's strengths and competitiveness; and
  - promote economic growth in all parts of Alberta.

- To realize Canada's future potential, the following will be required:
  - Government economic policies must create an environment which encourages industries to adapt rapidly to world economic trends and developments.
  - Governments must foster an environment conducive to investment. Development of Canada's economic potential will require investment capital from both domestic and international sources. Policies must be implemented to encourage that investment.
  - Canada must strive constantly to improve productivity and maintain the world market competitiveness of its products. The development of corporate export consortia, capable of competing with international firms, must be encouraged to ensure world markets are penetrated and maintained.

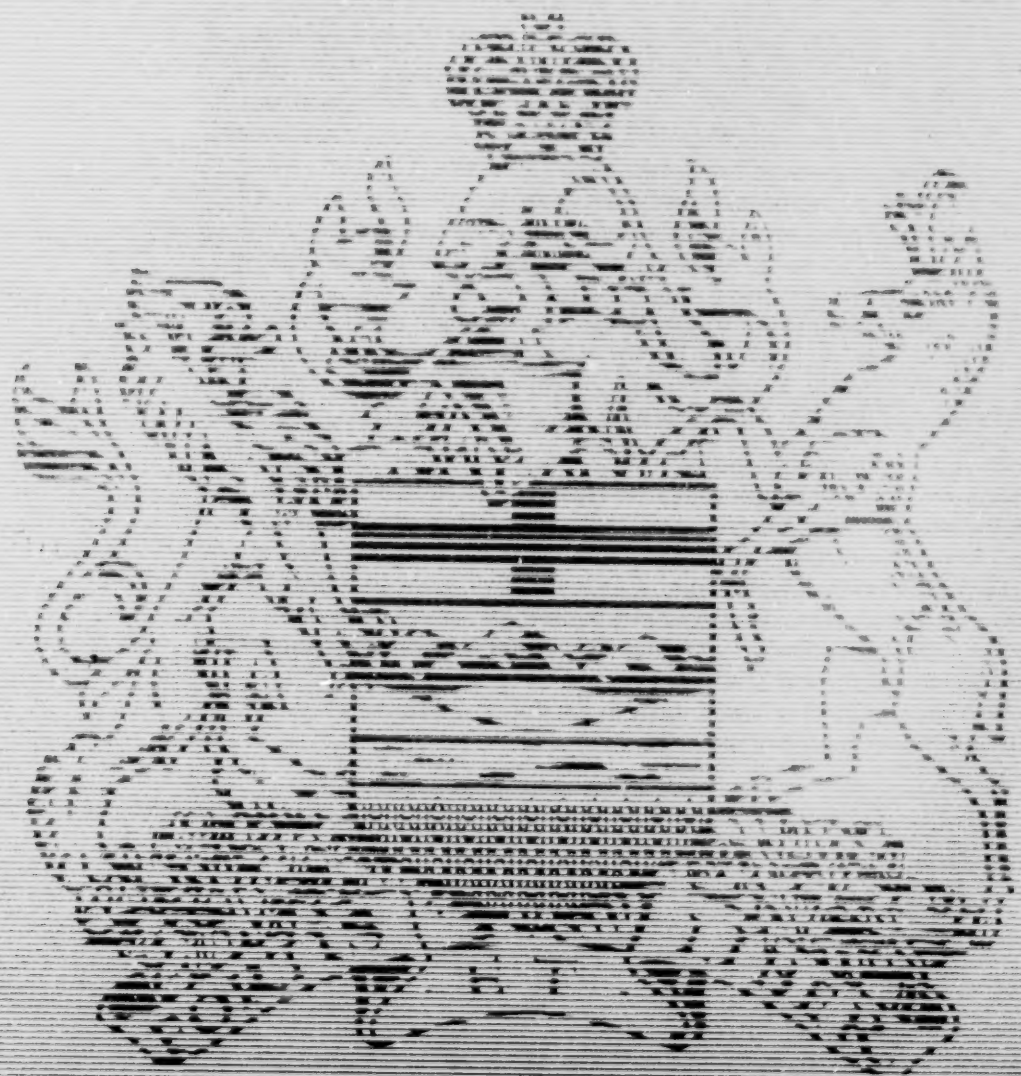
- Access to both the Canadian and international markets must be enhanced. The federal government and provincial governments must reject policies which distort the market economy and artificially create trade barriers. They should continue to press for greater access to international markets for our products by working toward the reduction and elimination of trade distorting tariff and non-tariff barriers, as well as by increasing direct overseas contacts.
- Increased trade promotion efforts must be made. Expanded export marketing activities and adequate export financing capabilities are integral to the expansion and development of markets for Canadian goods.
- Provincial participation in international trade discussions should be expanded. International trade policies can have direct consequences for provincial economic policies. It is important that provinces be involved in those international multilateral/bilateral discussions which are likely to have an impact on specific provinces or industrial sectors.
- Canada must develop realistic national energy pricing policies. All Canadians will benefit if natural resources are priced to reflect market realities and if the profits attributable to risk-taking are not overburdened, as they are now, with ill-conceived federal taxes. The federal government should not tax resources but should restrict its taxation to the profits derived from the development of the resources.
- Improvements to the national transportation system must be made. An efficient transportation system is vital to Canada's international trade efforts.
- Governments must encourage technological innovation. While the private sector should take the lead in applied research and product innovation, governments play an important role in encouraging research and development and the adoption of the new technologies necessary to maintain competitiveness. Governments have a responsibility to ensure that publicly funded research findings are shared with private industry.
- Efforts must be made to improve the capability of our young people to compete in the dynamic world market place of the next decade. The rapid technological developments in the world economy will require many individuals to change jobs within their working careers. All men and women must be given the opportunity through educational facilities and job retraining programmes to acquire new technical skills to meet the changing needs of the market place.

- Canada's Native peoples must be provided with economic opportunities. The aboriginal peoples must be assured of the opportunity to participate fully in the economy. In Alberta, the Native Venture Capital Corporation and the Business Assistance for Native Albertans Corporation will assist in this regard.
- The tourism and recreation industry must be expanded. Alberta has an enviable endowment of natural beauty which has formed the basis for one of the province's major industries: tourism and recreation. Policies must be implemented to maintain our competitive advantage in this area. Hosting major international events such as the XI Commonwealth Games (1978), the XII World University Games (1983) and the World Scout Jamboree (1983) enhances international recognition of Alberta. The hosting of the 1988 Winter Olympic Games will further the realization of Alberta's tourism and recreational potential. Alberta benefits from international cultural events held in the province. Heritage Days is an important annual cultural event which not only serves to bring Albertans closer together, but serves to make our international visitors more aware of the province and its dynamic qualities.
- Governments, federal and provincial, must be sensitive to the important role and special needs of small business, and create an atmosphere where the entrepreneur can be successful.

Conclusion

- The private sector is the driving force of the economy. Governments play an important role in providing a positive climate for private sector investment and initiative.
- Canada's future will depend to a significant degree on our ability to meet the challenges of an increasingly competitive world and to strengthen and expand our international markets. Working in a full partnership, both orders of government and the private sector must develop new marketing strategies for Canada.
- Canada's economic and social strength stems from the diversity of its provinces and regions and the talents of its people.
- Alberta's human and natural economic strengths are considerable. Building upon these strengths, Alberta contributes significantly to Canada's economic well-being. With appropriate economic, fiscal and trade policies, the province can make an even greater contribution to Canada's future.

The Market Economy and Government-Private Sector Relations



The Market Economy and Government-Private Sector Relations

As Canadian society has become more complex and sophisticated, governments have played an increasingly important role in economic affairs. The economic policies of governments, including fiscal, monetary and regulatory policies, have important effects on the functioning of the private sector. This section examines the major economic issues related to the role of governments in a private enterprise society.

While governments have come to play an increasing role in the economy, Canada has retained the basic characteristics of a private enterprise society. The shape of the economy is, by and large, determined by the private sector. Laws and customs protect our basic economic freedoms, including the right to own and dispose of property, to choose an occupation, to use resources as we wish, and to spend income as we see fit. Most economic activity takes place in the private sector, and basic economic freedoms give Canadians the choice of what goods and services they will produce, by what method they will produce them and at what prices they will be sold. As long as these freedoms are exercised without resorting to coercion or harm to others, few Canadians, if any, would agree to forego them.

A key issue in Canadian society is to adopt a set of political and economic policies which promote economic growth and maximize economic activity. The objective is to provide the information and framework necessary to enable the private sector to produce those goods and services which are most needed and valued, and to use the most efficient method of production to avoid wasting resources. At the same time, consumers must be given the choice of competitively priced goods and services. And, finally, a sufficient proportion of the income created must be saved and invested for the well-being of future generations.

Economic and social goals go hand-in-hand. Only through economic growth can we maintain and develop the resources to pursue our social priorities. Canadian society is committed to ensuring that all of its members have a reasonable standard of living. This has led governments to provide health care, education and a wide range of other social services. A dynamic private economy can provide the means to ensure everyone a reasonable standard of living. Therefore, it is incumbent upon governments to resolve any conflicts between the operation of the economy and the pursuit of social goals in a manner which enhances rather than disrupts economic growth.

Realities of Market Economies

The market system is the most efficient way to maximize economic activity. The comparative prices and quality of goods and services convey to both producers and consumers the information they need to choose among different allocations of their expenditures. The market system allows prices to express freely the conditions of demand and supply, thus transmitting information among the buyers, producers and owners. No government can effectively replace this system, as the experience of centrally planned economies has shown. Canada must re-assert its commitment to the market system and adopt policies that will improve rather than impair the market system's performance.

Governments must allow the market system to convey the information needed for efficient economic decision-making. Moreover, they must ensure the maintenance of a comprehensive set of rewards generated in the market. They must minimize interventions which distort market incentives necessary to carry on such growth-promoting activities as work effort, occupational and geographical mobility of workers, investment and saving, innovation and entrepreneurship. There must be sufficient rewards to individuals, through higher expected income and profits, to provide the incentives to engage in these activities.

It is important to maintain and offer proper incentives for investment and saving. The accumulation of physical capital in the form of privately owned facilities, machinery and equipment, and publicly owned infrastructure has been a main source of economic growth. Through continued high levels of investment in capital stock, the well-being of present and future generations will be enhanced. High levels of investment depend on investors being convinced that they have the opportunity to earn a return that compensates for risk. Government intervention, notably through the tax system, which reduces the rewards of entrepreneurship to levels that are not commensurate with the risks, is inconsistent with society's aim to improve the standard of living of its present and future members.

The Role of Government

A basic role of governments in a market economy is to provide the private sector with an economic, political and social environment where it can successfully perform its role as the driving force of the economy. The appropriate economic environment can best be realized by reliance on market mechanisms, thus providing a system of incentives and rewards to growth generating activities. By maintaining policies which complement private sector activities, a political and social environment conducive to a better quality of life can be achieved.

A harmonious relationship between economic and social objectives can be achieved in two ways: by limiting governments' share in economic activity to minimize competition with the private sector for available capital, and by ensuring that income redistributing activities do not preclude an effective system of reward. The ways of determining the nature and level of government supplied services and the extent of income redistribution activities follow.

Governments' Direct Share in Economic Activity

Governments' direct share in economic activity stems from its responsibility to provide services which the private sector would not otherwise provide or could not provide efficiently. As a result of industrialization, urbanization and population growth, the variety, quantity, and quality of government-supplied services have increased substantially. Governments' share of total Gross National Expenditure has grown. This substantial growth of government expenditures has become a matter of serious public concern.

In 1950 the total government share of Gross National Expenditure was 22.1 per cent. By 1975, the government (federal/provincial/municipal) share was in excess of 40 per cent and in 1982, a year of severe recession, this percentage rose to 47.3 per cent. At the same time, the public sector in Canada has posted a deficit every year since 1975, in spite of significant surpluses in Alberta. By 1982 this deficit reached 5.3 per cent of Gross National Expenditure.

Expenditures increased at the provincial level from 5.7 per cent of Gross National Expenditure in 1950 to 14.4 per cent in 1982. This largely reflects the more rapid increase in spending for services in areas of provincial constitutional responsibility, such as health care and education. The shift of health care expenditures from the private to the public sector in the 1960's contributed to this increase. By 1980 the provinces' expenditures on health accounted for more than 45 per cent of their total expenditures on services, and their growth has been accelerating. In Alberta, per capita health care expenditures are one-third above the national average. When health care expenditures are excluded, the growth of provincial government expenditures on services shows a more modest increase.

Federal government expenditures increased from 11.5 per cent of Gross National Expenditure in 1950 to over 16 per cent in the latter part of the seventies. The relatively large and increasing share of federal government expenditures is explained in large part by federal debt servicing costs. It also is due to increasing personal transfer payments, such as Unemployment Insurance, Old Age Income Security and Family Allowances. The growth in personal transfer payments has occurred mostly since the mid-sixties.

Local government expenditures increased most from 1950 to the early seventies, a period during which they rose from 4.9 per cent of Gross National Expenditure to more than nine per cent. This share has remained fairly constant since then.

Measuring the government share of Gross National Expenditure does not reveal the full extent of government involvement in the economy. Governments also are involved through their tax policies, Crown corporations and the development and administration of government regulations.

We have reached the outer limit of the size of government compatible with economic growth. Therefore, it is incumbent upon all of us to ask which services governments should provide in the future? In what quantity and of what quality? What proportion of their cost should be borne directly by those who consume them? These are difficult questions to answer, yet escalating government expenditures make them pressing concerns. These issues must be resolved through a consistent policy which recognizes the paramount importance of the private sector in generating employment and income. Adopting a consistent set of principles to assess which services governments should supply in the future, and in what manner, is a challenge that Canada must now meet.

The Government of Alberta has identified the following three principles which should be used to assess which services governments should provide:

- publicly supplied services should be limited to those which cannot be efficiently supplied by the private sector;
- the provision of these services must not jeopardize the private sector's role and the proper functioning of the market system; and
- services should be provided in a way that deters overconsumption and abuse.

With regard to the first principle, few would argue that our highway network or urban infrastructure, such as our water supply, could be more efficiently supplied by the private sector. When decisions are made to transfer economic activity from the private to the public sector, as was the case for health care in the 1960's, citizens and their political representatives must be aware of alternatives and of the many economic costs involved.

With respect to the second principle, continued expansion of the public sector at a rate exceeding that of the private sector is inconsistent with the view that market activity is the most efficient means of maximizing economic growth. Since public sector activity, particularly when it is involved in the provision of services, is largely unresponsive to market signals and rewards, each increase in the public sector's share of economic activity can reduce the role of markets and "crowd out" or diminish the role of the private sector.

The third principle is based on a recognition that, since the costs of providing public services may not be borne directly by those who consume them, there may be a built-in tendency to overconsume. Mechanisms, therefore, must be developed which will heighten the awareness of Canadians that public services are not "free", making the public more cost-conscious in their use of them. This could be achieved, for example, by introducing user fees to provide a self-regulating mechanism in the production and consumption of certain of these services. This would replicate, in part, the self-regulating mechanism occurring in the private sector. Hardship to certain individuals as a consequence of user fees can be reduced or eliminated through the tax and transfer payment systems.

Government and Economic Disparities

In addition to providing services, governments play a role in reducing economic disparities. This role expanded as our society became more affluent and more economically capable of ensuring a socially acceptable minimum standard of living for all Canadians. Income redistribution is accomplished through the tax system, through government transfer payments to individuals, and through intergovernmental transfers. It is aimed at correcting income insufficiencies of individuals and of regions. Canadians are committed to the principle of sharing income with those who cannot achieve acceptable minimum standards of living.

An important issue is how to devise policies which will achieve a certain degree of income redistribution without conflicting with the goals of economic efficiency and growth. Redistribution of income should be carried out in a way that minimizes its interference with the proper functioning of the market. It should be accompanied by policies which will not act to perpetuate individual or regional income inadequacies.

Intergovernmental income transfers are directed toward the provision of health, education, economic and social service programmes across the country. A long-standing principle of Canadian society which was recently entrenched in the Constitution is that individuals in comparable circumstances should be afforded access to a comparable level of public services, regardless of geographic location. Intergovernmental income transfers were developed to offset the disparities in regional economic strength, allowing the provision of comparable public services at reasonably comparable levels of tax effort.

The way in which these programmes are implemented often has serious flaws which tend to increase the sacrifice of economic efficiency inherent in any income redistribution scheme. Lacking adequate measures of what constitutes an acceptable level of public services, income transfers have been directed to the equalization of provincial revenue-raising capacity and, to a lesser extent, individual incomes. By distorting the normal operation of the market, these income transfer programmes can affect mobility of goods, services, capital and persons, and could lead to an inefficient provision of public services in slow growth areas. Clearly, there is room for improving the present system.

Intergovernmental income transfers have been accompanied by a number of policies aimed at generating economic activities in lower income regions. For the most part these have taken the form of direct grants and subsidies to attract industries in areas where they would not otherwise have located. The objective of attracting industries to depressed regions is to develop a self-sustaining economic base which would raise these areas' incomes closer to the national average. What has developed is an expanding and often inconsistent system of subsidies which have distorted the private sector's decision-making process. Again, there is room for improvement.

A first prescription is that usage of the tax system should be given preference over the present complex network of direct subsidies. Government grants should play only a minor role in providing short-term assistance or front-end financing. Grants impede economic growth by distorting market prices and stifling entrepreneurship. Tax incentives, on the other hand, limit the extent of direct government involvement and leave decision-making responsibility appropriately with the private sector. They have tended to be less discretionary and less interventionist than direct subsidies and grants.

As a second prescription, intergovernmental income transfers should be viewed as a short-term policy to correct income deficiency during periods of adjustment to change in regional economic structures. Hence, the system must be designed in a manner that will not tend to perpetuate income deficiency. Redistribution must not hinder the medium-term mobility of labour and capital that the free play of market forces would otherwise induce. To the extent that redistribution slows the process of adjustment, it should be accompanied by policies which counteract this undesirable effect. Policies should build on each province's or region's strengths rather than counteract market forces.

A third prescription is that provincial governments should have a greater role in the design and implementation of regional redistributive policies. Greater decision-making responsibility by the provinces would allow better coordination of efforts and ensure that adjustment policies satisfy the particular needs and interests of each region.

The federal and provincial governments also play a role in redistributing personal income. The objective is to redistribute income to those citizens unable to achieve an acceptable minimum standard of living. In our pursuit of this objective, we must not impair the rewards to effort and initiative essential to economic development. Only a system of adequate rewards will ensure that growth promoting choices are made. We must not allow our tax and redistribution systems to deter Canadians from making these choices.

Natural Resource Revenues: A Special Role for Government

Much of Canada's economic strength is dependent upon depleting natural resources. A unique responsibility of those governments which own their natural resources is to ensure that the income derived from the current sale of depleting natural resources is equitably shared between present and future generations, and that the proceeds of such sales are used to make the economy stronger and more diversified for the day these resources are depleted. In 1976, Alberta created the Alberta Heritage Savings Trust Fund to set aside a portion of resource revenues to cushion future Albertans against the time when revenues from depleting resources decline, and to encourage some diversification of the economy. The Saskatchewan government has adopted a similar mechanism.

Government-Private Sector Relations

Direct Government Involvement in the Economy

Some degree of government involvement in the economy has been justified by the belief that the private sector may not fully take into account some of the costs and benefits associated with its activities. For example, if the production of certain goods has an adverse impact on the environment, that cost may not be taken fully into account because it is not borne by the producer but by society as a whole. The benefits of research and development may not be recognized fully because producers may not realize immediate monetary gain from devoting greater resources to this area. Government has tried to limit social and economic costs and maximize benefits through a complex system of taxes, grants, subsidies and regulations. The extent of direct involvement, and the manner in which it is made, must be reassessed.

The first step in this reassessment is to recognize that direct involvement in the economy carries costs. Apart from the direct costs of implementation, it imposes costs on the private sector by limiting its freedom to make the most profitable choices. It takes production and consumption decisions away from the private sector and turns them over to governments who are not as responsive to the realities of the market. It compels business to devote time, manpower and financial resources to complying with government regulations and an increasing paper burden.

The benefits of any direct government participation must be weighed against these costs. A first principle in reassessing direct government involvement is that benefits should clearly exceed costs.

When participation is considered desirable, it should have a clear purpose and be designed to minimize its interference with the functioning of the market. The best way to achieve this goal is to involve the private sector in the design and implementation of government economic policies. By consulting and involving the private sector, a method of government participation which is least disruptive and which promotes cooperation with the private sector can be determined. Finally, all involvement of a continuing nature, through tax policies and regulations, should be periodically reassessed to ensure that it continues to carry net benefits and to be administered efficiently.

Determining the type and extent of government involvement is a major challenge facing Canada. Over the past decade, while the provinces were stressing the crucial role of the private sector in economic performance, interventionist federal policies were causing immeasurable damage to the Canadian economy.

The policies and practices of the Foreign Investment Review Agency have led to the perception by international investors that they are unwelcome. Although changes have been made to the practices of the Agency, it will be some time before international investor confidence in Canada is restored.

The federal policies under the National Energy Program of 1980 are likely the most damaging federal intervention introduced in recent years. Its petroleum incentive grants, intended to encourage Canadian ownership and exploration, have stifled private sector initiative and, through the debt burden they encouraged, have crippled the very Canadian firms they had intended would benefit from the programme. Perhaps the most devastating aspect of the programme is the burdensome level of taxation which has stripped the rewards of hard work and risk-taking. Unfortunately, the damage wrought by these interventionist policies will remain for some time even if a reversal of policies were to occur.

Governments have a key responsibility to enhance an economic and political environment conducive to economic growth. The essence of such an environment is predictability and stability of government policy and close cooperation between governments and the private sector.

Providing a Stable Economic Environment

The economic policies of the Alberta government, since its election in 1971, have successfully created an environment conducive to economic growth. By 1982, Alberta's per capita real income had almost doubled and is the highest in the country. The province's economic strategy has been stable and is well-understood by the private sector. Government expenditures have focussed on ensuring that the social and economic infrastructure is in place to facilitate growth. Low tax rates have not interfered with the rewards to hard work and risk-taking and have enabled the private sector to build on the province's natural strengths. In spite of its relatively strong fiscal capacity, the government has resisted the temptation to use grants to attract industry to Alberta that would not otherwise have located here, recognizing that such intervention would impose long term costs on Albertans as well as other Canadians.

The Alberta government's record is in stark contrast to federal economic policies. The foremost task in the coming decades is a return to stable, non-interventionist federal economic policies. Nowhere is this need more pressing than in the area of federal fiscal policies.

During the fifties and sixties, the federal government made increasing use of discretionary expenditure and tax policies based on the premise that these could successfully fine-tune the economy. It was believed that continuous readjustment in the mix of expenditures and taxes could keep the economy operating at a level close to its potential. Discretionary fiscal policies were designed to reduce inflation and unemployment. They were supplemented by a growing arsenal of grants, subsidies and changing tax policies aimed at producing structural changes that the federal government deemed desirable. These actions, which the federal government believed could be altered or reversed as the situation changed, were viewed as having a direct impact on the economy. Little consideration was given to the possibility of damaging secondary effects.

On the surface, discretionary fiscal policies worked well for a time. From 1950 to 1969 the real Gross Domestic Product grew at a compound average annual rate of slightly more than five per cent, the unemployment rate averaged 4.2 per cent in the first decade and five per cent in the second, while inflation, as measured by the Consumer Price Index, averaged 2.7 per cent and 2.5 per cent, respectively. Productivity gains were allowing personal incomes to increase.

In those two decades, many growth generating forces were at work. Investment demand was strong due to rapid technological changes. There was a need to rejuvenate industrial infrastructure after years of war and depression, and strong capital demand existed as the resource industries expanded. Population growth was stimulating consumption demand and investment in social infrastructures. Increasing international trade flows were creating new markets for our natural resources.

By the early seventies problems began to appear. Both inflation and unemployment were increasing. Productivity growth was lower. The emerging world of "stagflation" — stagnant growth coupled with high inflation — was eroding the foundation of the inflation-unemployment trade-off. It came to be realized that increasing economic activity through fiscal stimulus could cause only a short-run reduction in unemployment, achieved at the cost of accelerating inflation. By the mid-seventies, inflation had topped 10 per cent and unemployment was in the seven per cent range. Federal fiscal policies failed to avoid or ameliorate these conditions.

One of the major mistakes was the belief that yearly tinkering with the economy could replace long-run economic policies. Successive budgets shifted the emphasis of federal policy from one short-term goal to another, without focussing on the underlying causes of the economic malaise. As a result, fiscal policies have been a source of added uncertainty, especially in the area of tax policy.

Fiscal stimulus also increased the size of the federal government. Programmes introduced to meet short-term objectives became permanent. Since part of the expenditure was deficit-financed, thus shifting the burden onto future generations, there was little taxpayer resistance and a more rapid expansion of the relative size of government resulted. This situation has become even more apparent during the past nine years of continued deficits.

Fiscal stimulus through deficit financing retards private sector capital investment. Since governments and the private sector both depend on the same capital markets, increased demand for funds to finance government deficits puts upward pressure on interest rates and eventually reduces the overall amount of savings available to the private sector. When deficits are incurred on a regular basis, as is the case with federal deficits, they reduce private sector investment and impede growth.

Two goals of paramount importance for governments are the elimination of persistent budgetary deficits and the restructuring of the tax system to encourage rather than penalize investment. The goals of fiscal policies must be stated clearly and all future budgets should be geared to their achievement.

Attempts to spend ourselves out of unemployment and cyclical downturns have failed because they did not address the causes of poor economic performance. If there is persistent involuntary unemployment and if the economy fails to perform to its potential, it is because there are structural problems in the economy. Deficit financing may temporarily prop up economic activity, but its inflationary impact will only exacerbate the problems. Restoring the balance of budgetary income and expenditure over the longer term will provide a larger pool of saving for productive private sector investment. Continued high deficits are incompatible both with increased investment by the private sector and with lower interest rates. Balanced budgets will help control overall levels of expenditure by ensuring that there is not expenditure without taxation. Finally, it will not shift the burden of paying for current expenditures onto future generations.

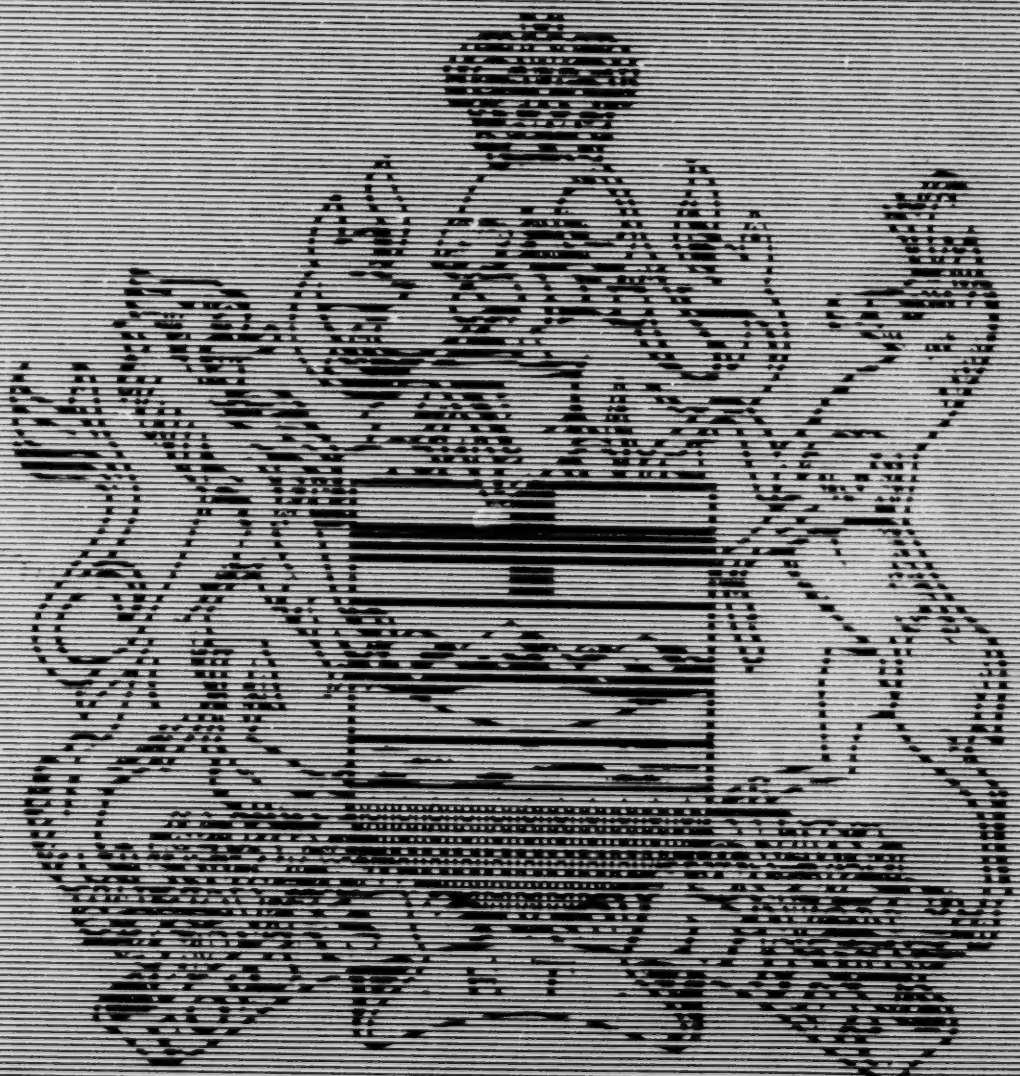
Restructuring the tax system should be aimed at encouraging investment and entrepreneurship, two essential prerequisites for growth. In the broadest of terms, the tax system should allow the entrepreneur to attract capital. The tax system should avoid frequent changes, thereby allowing individuals and businesses to plan their actions over a longer horizon.

As for monetary policy, the experience of the past few years has shown the costs of trying to eliminate inflation once it is firmly imbedded in the economy. It also has shown us that the economy cannot grow with high and volatile interest rates. With a return to balanced budgets over time the best anti-inflationary safeguard will be in force, limiting monetary expansion and restoring stability to interest rates at lower levels.

While reducing deficits and restructuring the tax system are critical to realizing Canada's future economic prospects, it also is essential that management-labour relations in the private sector be improved to increase productivity and restore competitiveness. Governments should encourage management-labour efforts to reduce or eliminate tensions resulting from the current adversarial nature of their relations. It is in the interests of all Canadians to increase the profitability of private sector enterprises through harmonious interaction between management and labour. By ensuring that public sector wages follow rather than lead private sector settlements, governments can contribute to the reduction of unrealistic inflationary expectations.

The suggested reorientation of private sector/government relationships as outlined will be successful only if the private sector has confidence in government. A true partnership must emerge in which both sectors feel they share common economic goals. This will require an effort on the part of government to understand better the needs of the private sector, a result best achieved through consultation on matters relating to economic policies. Restoring and maintaining confidence is the single most important challenge facing governments.

Intergovernmental Economic and Fiscal Relations



Intergovernmental Economic and Fiscal Relations

Canada's vast size and its inherent social, cultural and economic diversity necessitate a federal system of government. It could not exist as a unitary state controlled by a single government remote from the people. Our success as a nation depends to a large degree on the ability of the governmental system to be sensitive and responsive to both the differences and the common interests which exist among provinces and regions. Despite the diverse circumstances and concerns across the country, the Government of Alberta believes that harmony in diversity can be achieved in Canada.

The past few years have seen a movement in Canada away from consensus or cooperative federalism. While throughout the sixties and seventies progress was made toward intergovernmental cooperation and consultation in the economic sphere, the period since 1980, in particular, has witnessed a trend toward adversarial federalism marked by growing distrust between federal and provincial governments. The trend is not due to the process, but rather is the result of a change in approach. The Annex to this section reviews several events and issues which illustrate recent trends.

Increasingly, unilateral federal action has replaced joint planning; federal intrusions into areas of provincial constitutional responsibility have replaced coordinated activities. The realities of Canadian federalism clearly rule out economic units operating in isolation. The high degree of interdependence between the two orders of government in important economic and fiscal policy areas requires that both orders of government must participate in the formulation of national economic and fiscal goals and objectives. Since economic and fiscal decisions of one order of government may have a significant impact on the policies of the other, an increased degree of consultation and cooperation among governments is necessary.

It must be understood, too, that the objectives of the federal government do not necessarily coincide with national objectives. In the federal system, both orders of government speak for the people. As such, national policies must reflect the views not only of the federal government but also of the provincial governments.

This call for increased intergovernmental cooperation is consistent with the position in the preceding section that economic development must be led by the private sector. It is not a call for "more" government. It is a recognition of the important role federal and provincial governments have in providing the economic, social and political environment for economic growth and in balancing social and economic objectives.

One of the overall objectives of intergovernmental relations is to develop the intergovernmental process in ways which contribute to a stable and certain environment, both for governments and for the private sector. With adequate consultation and coordination, a pattern of mutual trust evolves and the environment for economic growth improves immensely.

The uncertainty created by intergovernmental tensions is replaced with a more certain framework for the private sector to engage in the investment-generating and job-creating activities so necessary to Canada's future prosperity. It is in this context that this section examines intergovernmental economic and fiscal relations and the rationale for cooperation and consultation, and sets out principles and recommendations which provide the framework for cooperative economic and fiscal federalism.

Rationale for Intergovernmental Cooperation

As stated at the outset, there is a high degree of policy interdependence among governments in Canada. This is the result of several circumstances:

- First, there is an imbalance between constitutional responsibilities and the fiscal capacity of the provinces. This situation has led to the development of a vast array of federal-provincial joint funding agreements for the provision of health, education, economic and social service programmes in Canada. To ensure that provinces can fulfill their constitutional responsibilities to provide a certain level of services in high cost programme areas, federal transfers to the provinces have been established. Associated with this point is the fact that the federal government's spending power has been used to implement major national programmes, often creating a situation of provincial dependence on federal transfers for their delivery.
- Second, the federal government and provincial governments have shared constitutional responsibilities in several fields having significant economic and fiscal implications (for example, agriculture, immigration, pensions).
- Third, even where the division of responsibilities is clearly defined, one government's economic policies may have a significant impact upon those of another (for example, the provision of tax incentives and the development of transportation policies).
- Fourth, the rapid rate of technological change and the growing complexity of society have resulted in new areas of responsibility which are not clearly articulated under the legislative powers of either the federal or provincial governments. Examples of these "new" areas of responsibility include communications and the protection of the environment.
- Finally, the existence of persistent regional economic disparities across Canada has created a fiscal interdependence between the two orders of government. Differences in economic strength result in significant

differences in the ability of provincial governments to provide public services from their revenues. Several joint programmes, which can be termed fiscal and economic equalization initiatives, are designed to ensure that each province can provide reasonably comparable public services at reasonably comparable levels of taxation.

It has been suggested that changes to the constitutional division of powers would alleviate some of the uncertainties in determining federal-provincial areas of economic responsibility, improving the balance between revenues and responsibilities among governments in Canada. While certain constitutional changes to institutions are desirable, attention also should be given to other, non-constitutional changes which will improve the operation of the federal system.

Fundamental to the improved operation of the federal system is a renewed commitment to cooperative federalism. Increased consultation and coordination will ensure that governments are not working at cross-purposes, thereby frustrating the achievement of common social and economic goals and hampering the efforts of the private sector.

Improving Intergovernmental Economic and Fiscal Relations

The adoption by governments of the following four fundamental principles would establish a stable intergovernmental environment, for developing a strong and dynamic economy.

- **Acknowledging Provincial Economic Diversity as a Source of Strength in the Canadian Economy**

  By building on natural resource strengths and human talents, each province can make its unique contribution to Canada's future economic prospects. Growth in one province can provide significant economic benefits to others.

- **Ensuring an Appropriate Balance Between Revenues and Constitutional Responsibilities**

  In a federal system, it is important to ensure that both orders of government have sufficient revenues to fulfill their respective constitutional obligations.

- **Respecting the Constitutional Responsibilities of Each Order of Government**

  Both orders of government must respect the limits of jurisdictional responsibility assigned by the Constitution. Clearly, governments must fulfill their responsibilities; however, in so doing, they must be sensitive to the impact their actions may have on others. In this regard, the federal government's spending power in areas of provincial

jurisdiction should be used constructively and only after consultation with the provinces affected.

- **Increasing Coordination Where Jurisdiction is Shared or Where One Government's Policies Have a Significant Impact Upon Another**

  Given that there are several areas of shared constitutional responsibility, and that one government's economic policies may have an impact upon another, it is incumbent upon governments to consult and, where possible, coordinate their activities. For example, through information exchanges in regard to tax policy development and restraint programmes, there can be greater harmonization of policies. Development of joint planning in the area of economic development is another way of achieving coordination of policies.

Building upon these principles, the Alberta government has identified several ways of improving the operation of the federal system. Admittedly, agreement between governments is not always possible. Nonetheless, as a process, intergovernmental cooperation and consultation promote greater stability and confidence than an adversarial approach.

In an environment of economic and fiscal interdependence, disagreements and conflict will arise among federal and provincial governments. While some differences of opinion are inevitable and, indeed, can be a creative and dynamic force, excessive or unnecessary intergovernmental tensions reduce the effectiveness of the policies of both orders of government and create uncertainty.

Intergovernmental tensions can be exacerbated by unilateral federal initiatives in regional economic development and by unilateral federal fiscal measures. Such actions often conflict with or distort provincial priorities and policies, and prove to be counterproductive. Unilateral federal initiatives must be replaced by a renewed commitment to joint collaboration and cooperation.

Federal Spending Power

It is recommended that the use of the federal spending power be more carefully circumscribed. The spending power, if used wisely, is a valuable tool in the achievement of many of Canada's economic goals and social objectives. It has been defined as the power of Parliament to make payments to individuals or institutions or to other governments for purposes which Parliament does not have the power to legislate. Unfortunately, the use of the federal spending power often results in intrusions into provincial constitutional responsibilities, distorts provincial programme priorities and impedes the provincial budgetary process.

While the Government of Alberta recognizes and supports the use of the federal spending power in achieving important national goals, such as alleviation of regional disparities, it should be used in areas of provincial jurisdiction only after meaningful prior consultation and joint planning with the provinces.

Negotiating Process

Tensions can be reduced in the negotiating process. During intergovernmental economic negotiations, governments are expected to advance the economic interests of their respective constituents and, at the same time, negotiate in "good faith". There is no conflict between these two requirements as long as both orders of government are committed to resolving outstanding issues in ways which are fair to all parties. Negotiating in good faith implies that governments will define positions and suggest solutions that facilitate joint agreement. By creatively building an atmosphere of mutual trust, agreements obtained in one economic area can have a positive influence on future negotiations in others.

Governments must be committed to the promotion of common interests. Just as there is diversity within the federal system in terms of opportunities, interests and objectives, there also exist common objectives which are in the interests of all governments in their efforts to encourage economic development. Distortions to the free movement of goods, services, capital and people can result from policies separately devised and implemented by either order of government. Consultation and cooperative action, therefore, are required to reduce and avoid unnecessary impediments to free movement.

Joint Planning

It is in the interests of federal and provincial governments to plan jointly and to coordinate regional development programmes to secure economic growth throughout Canada and minimize economic efficiency losses associated with the redistribution of income among regions. This is particularly important since fiscal and economic equalization initiatives are directed not only to the provision of social services, but also to encourage economic development in the less well-developed regions of Canada.

In the area of international trade, the federal and provincial governments share interests in expanding markets. Both orders of government have an important role to play in assisting the private sector in strengthening existing markets and finding new ones for Canadian resources and manufactured products. Interprovincial cooperation in this area has been

underway for the past 10 years. Most of the initial interprovincial activity occurred in western Canada with numerous joint western briefs being presented to the federal government on the Multilateral Trade Negotiations, non-tariff barriers, General Agreement on Tariffs and Trade, and protectionism. Recently, these regional endeavours have expanded to include all 10 provinces. During the past year, the provinces have developed a joint position paper advocating provincial involvement in the development of Canada's trade policies. Federal-provincial cooperation in the development and operation of Canada's trade policies is vital if Canada's economic prospects are to be realized.

The reform of Canada's regulatory process must be explored to reduce inefficiencies in both the private and public sector's operating costs. Governments, first of all, should strive wherever possible to eliminate regulations. Where some regulation is necessary, it is important for governments to develop complementary regulations. Given the differing economic needs and requirements of Canada's provinces, uniform regulations are not always possible or desirable. Nonetheless, one of the tasks of the intergovernmental process is to coordinate and harmonize regulations to ensure, at a minimum, that the rules do not conflict among governments' jurisdictions.

Fiscal Arrangements

Intergovernmental tensions may be reduced by the gradual adjustment of policies rather than by dramatic policy reversals. This is especially true in the areas of expenditures and tax policies. Abrupt changes in fiscal policies or in economic regulations increase the potential for intergovernmental conflict and constrain economic growth.

With respect to federal-provincial fiscal arrangements, there should be recognition of two basic premises upon which future arrangements should be based.

- Provincial governments must receive access to revenue generating tax sources sufficient to discharge effectively their constitutional responsibilities for the development and delivery of health, education and social service programmes.
- The Fiscal Equalization programme must be complemented by a detailed assessment of the goals and objectives of the programme within the context of public sector provision of services.

When the major social programmes (hospital insurance, medical care and post-secondary education) were in the early stages of their development, conditional federal funding was warranted to ensure the creation of a social services system in which all Canadians would be treated fairly.

These programmes no longer require direct federal involvement to

ensure the continuation of a Canadian system of social programmes. The perceived weakness in the fabric of Canada's social programmes arises not from a desire on the part of the provinces to develop unique delivery systems or to lessen the quality of services, but from the reality of an uncertain and unreliable arrangement for the funding of these programmes.

Provinces must have more fiscal independence to meet their constitutional responsibilities and enhance their capability to plan and deliver social programmes. This could best be realized through a transfer of a greater share of tax room to the provinces and a significant reduction in conditional direct federal transfers for the provision of social programmes.

With respect to the second premise, the Government of Alberta continues to support the concept of equalization as a central feature of the Canadian system. Indeed, the *Constitution Act, 1982* contains a commitment to the principle of fiscal equalization; that is, Parliament and the Government of Canada must "ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation." The Government of Alberta agrees that the federal government must have responsibility for implementing fiscal equalization. Alberta also agrees with the implicit principle that, through the tax system, each Canadian taxpayer should contribute to the provision of fiscal equalization transfers to recipient provinces.

Nonetheless, while the intent of fiscal equalization is sound, the tools used to achieve equalization have been deficient. The development of the fiscal equalization programme has proceeded without accompanying consideration of exactly what constitutes a level of "reasonably comparable public services" toward which fiscal equalization is directed. Without a clear definition of a target level of public services and their costs, the fiscal equalization programme is void of any goals or objectives other than equalization of revenue raising capacity. This is not the intent of fiscal equalization. An assessment of the objectives of the equalization programme should be undertaken by federal and provincial governments.

Institutional Changes

In addition to the foregoing ways of promoting cooperative federalism, a number of institutional changes would go a long way toward eliminating, or at least significantly reducing, intergovernmental tensions and developing a more positive climate.

A First Ministers' Conference on the Economy should be held each fall to ensure consultation and cooperation in the development of joint economic and fiscal strategies and to facilitate pre-budgetary consultations.

The requirement to have an annual conference should be entrenched in the Constitution. As well as enabling governments to develop, where appropriate, joint economic strategies and fiscal policies, such a forum would stimulate public discussion and debate on national economic goals and objectives. Because First Ministers' Conferences have become highly visible forums, they provide increased opportunity for Canadians to become more aware and better informed of the views of both orders of government on the important economic issues facing the country.

Another institutional change which could lead to a greater degree of sensitivity to provincial and regional interests and concerns in the national economic decision-making process is the reform of the Upper House. It has long been recognized that, for a variety of reasons, the Senate is not adequately performing the key function for which it was originally designed — the representation and protection of provincial or regional concerns within Parliament. Federal and provincial governments, as well as numerous organizations, academics and private individuals, are currently reviewing the options with respect to Upper House reform. Such reform will likely be the subject of in-depth intergovernmental discussions in the near future. The major objective of any reform to the Upper House must be to increase the responsiveness of Parliament to the economic and social needs and aspirations of all parts of the country.

As the final arbiter of constitutional disputes, the Supreme Court of Canada has a significant role in interpreting the division of powers and responsibilities of the federal and provincial governments. The Government of Alberta continues to support the recommendation in *Harmony in Diversity: A New Federalism for Canada,* a 1978 Alberta document, that the provinces should have a role in the appointment of Supreme Court justices.

A further recommendation is that provision be made for direct provincial participation on federal boards and agencies which are involved in economic matters. Many of these agencies, such as the National Energy Board, the Canada Wheat Board, the Canadian Transport Commission and the National Harbours Board, have a direct impact on provincial economic policies and programmes. To date, there is no requirement for prior consultation with provincial governments in the appointment procedures for these important boards and agencies. With provincial participation (for example, through the appointment procedures) these agencies could be more sensitive to the regional needs and interests of the country in fulfilling their respective regulatory functions.

As well, a number of existing intergovernmental mechanisms, such as the Annual Premiers' Conference, the Western Premiers' Conference, and the Council of Maritime Premiers, have the potential to contribute significantly to the achievement of common social and economic goals. Governments should continue to explore and evaluate existing and

proposed new institutions and mechanisms with a view to promoting and enhancing the operation of the federal system. Consistent with the principles of federalism, any changes must be based on the accommodation and protection of provincial and regional interests while maintaining the integrity of national objectives. Important national objectives and tasks cannot be realized or discharged effectively if the decision-making structures fail to accommodate distinct provincial and regional interests.

Intergovernmental Relations and Future Economic Prospects

It can be unproductive and self-defeating for one order of government to act in isolation, to act unilaterally, as if its decisions did not affect the economic and fiscal interests of the other. When a series of these actions and events established a trend, intergovernmental tensions increase, governments may work at cross purposes, common interests may not be perceived and private sector confidence can be eroded. As a consequence, economic activity declines. By rejecting the recent trend toward an adversarial approach and favouring instead a renewal of cooperation based on consultation and realized through greater harmonization of economic and fiscal policies, both orders of government can play an important complementary role to the private sector in promoting economic activity.

The Alberta government is optimistic that Canada's tremendous human and natural resource potential can be realized through a renewed commitment to cooperative federalism. We are committed to participating in a mutually advantageous intergovernmental partnership to make the process work in ways which facilitate, rather than frustrate, the development of our economic opportunities. Reducing intergovernmental tensions and promoting common interests are important means to the achievement of a new Canadian partnership.

Several principles have been identified in this section as essential to intergovernmental interaction. Joint agreement to these principles would both enhance the quality of intergovernmental relations and restore an economic climate based on mutual trust.

It is ultimately the firm commitment of governments to create an atmosphere of mutual trust and to resolve outstanding economic policy issues through consultation and coordination that establishes the environment for cooperative economic relations. This, in turn, provides a stable and certain environment for private sector-based economic activity, an important contribution governments can make in the pursuit of Canada's future economic prospects.

Annex

Recent Trends in Intergovernmental Relations

Two contrasting trends have emerged in Canadian federal-provincial relations in recent years. The latter half of the 1970's witnessed the evolution of consensus or cooperative federalism in the economic sphere, which recognized the interdependence of governments and the consequent need to coordinate the economic activities of governments. The second trend, adversarial federalism — marked by growing distrust between federal and provincial governments — has characterized relations between federal and provincial governments in the period since 1980.

Cooperative Economic Federalism

While intergovernmental discussions in the areas of social policy and financial relations have occurred regularly since the end of the World War II, in the decade of the seventies increasing attention was paid to the economic sphere. During the 1970's intergovernmental economic relations became more formalized and regular. At the same time, governmental agencies designed to facilitate intergovernmental cooperation and consultation were established.

Regular interaction occurred among federal and provincial governments and on an interprovincial basis. Mechanisms such as the Annual Premiers' Conference, First Ministers' Conferences, and ministerial meetings clearly facilitated closer consultation and cooperation on a number of issues, including general economic development, social policies and fiscal arrangements. An examination of several key issues and events serves to highlight the state of intergovernmental relations during that time.

Regional Economic Development

In 1974, following extensive consultations, the federal government signed 10-year General Development Agreements with the provinces to promote and foster regional development activities. The agreement concept was designed to ensure flexibility in the design of programmes, recognizing that provinces and, indeed, regions within provinces, have differing development opportunities and problems.

The General Development Agreements were based on the principles of joint planning and programming. They recognized that comprehensive, integrated measures and intergovernmental cooperative mechanisms are required if viable policies and programmes to promote regional development were to be designed. The agreements enabled both orders of government to develop joint policies and programmes to meet the needs of regions.

Both orders of government have responsibilities to promote and foster regional economic development activities. Planning for such development requires close cooperation and coordination between governments, and between governments and interest groups in the region.

Western Economic Opportunities Conference

The Western Economic Opportunities Conference, held in Calgary in July 1973, was a unique venture in the history of federal-provincial relations since it marked the first and only time that the Prime Minister and Western Premiers met to discuss the concerns of the region. The objective of the Conference, from the western provinces' perspective, was to develop a programme designed to eliminate national policies which discriminated against the region's economic growth and to formulate new policies aimed at correcting past problems. Prime Minister Trudeau made it clear that the federal government shared these objectives, noting that the "pre-eminent part of our task is to begin moulding new national approaches with full western participation."

Prior to the Conference the western provinces worked in close cooperation to develop common positions on a number of important issues. The four provinces developed detailed position papers on issues relating to transportation, economic and industrial development opportunities, agriculture, and capital financing. The continuation of cooperation among the four provinces through annual Western Premiers' Conferences was an important result of the Western Economic Opportunities Conference.

In many respects the Conference was only a partial success. While it was significant insofar as it provided a forum for interprovincial and federal-provincial relations, many of the proposals have not been acted upon. Nevertheless, it stands as a potential model which could be used for cooperation among governments.

Federal-Provincial Fiscal Arrangements

By the early 1970's the federal government, through the use of its spending power, had implemented a national system of health care and a system of financial assistance for post-secondary education. The provinces had agreed to enter into these programmes and accepted conditions on programmes within areas of provincial constitutional responsibility in exchange for open-ended 50-50 shared-cost funding with the federal government.

The federal government had achieved the involvement it desired in the programmes, but it soon became evident that the cost of that involvement was becoming prohibitive. To limit its fiscal exposure, the federal government acted to cap the growth of its contributions to post-secondary education (1972) and medicare (1975) and gave official notice of termination of the shared-cost financing arrangements for hospital insurance (1975).

As the provinces endeavoured to enhance their social programmes and services, the lack of flexibility associated with conditional federal shared-cost funding became increasingly apparent. The provinces desired increased budgetary control to pursue their individual long-term priorities and objectives, and the flexibility in programme design necessary to meet the needs of their constituents.

In 1976-77, federal-provincial negotiations were conducted in an attempt to develop new funding arrangements which would balance the provincial desire for flexibility and innovative capacity with the federal concern over its financial contributions to the programmes. In preparation for these negotiations, provinces were able to achieve a consensus on a proposal for a new financing arrangement, despite their varying circumstances and fiscal capacities. Through a series of First Ministers' and Finance Ministers' meetings, the 11 governments of Canada agreed to a financing arrangement which provided long-term, dependable funding for Canada's major social programmes. The new federal-provincial agreement minimized the financial risk on the part of the federal government and increased the fiscal autonomy and the flexibility of the provinces in programme delivery. The agreement became known as the Established Programs Financing Arrangements.

The new Established Programs Financing Arrangements came into effect in April 1977, replacing shared-cost funding for hospital insurance, medical care and post-secondary education with a block funding arrangement. The block funding consisted of cash transfers to the provinces and increased provincial income tax capacity. The revenues were to be administered internally by the provinces on the basis of individual priorities and needs. The growth of federal transfers was tied to past rates of growth in the Canadian Gross National Product, providing the federal government with a controlled and predictable funding obligation.

The 1976 federal-provincial negotiations for a new funding arrangement for the major social programmes were a hallmark of the spirit of cooperative federalism. Although the goals of the two orders of government were not necessarily complementary, both parties recognized the need for a modification of the financial arrangements in existence at that time. Moreover, provinces were able to overcome their differences and develop a joint proposal which was to later become a significant factor in determining the final agreement between the federal and provincial governments.

The 1978 First Ministers' Conference on the Economy

The process surrounding the two 1978 First Ministers' Conferences on the Economy resulted in perhaps the most comprehensive and innovative set of initiatives relating to federal-provincial economic relations undertaken to date. The objective of the two First Ministers' Conferences, in February and November 1978, and the preparatory meetings of ministers and officials, was to devise a medium-term economic strategy for Canada. In his opening address to the February Conference, the Prime Minister stated that this was "the beginning of a new era in collaboration between the provinces and Ottawa."

During this process a number of important topics were addressed, including labour markets and employment, public sector restraint, industrial development, and particular economic sectors (agriculture, energy, transportation, fisheries). Commitments made by the First Ministers emphasized the need for private sector-led growth, restraint on prices and incomes, the importance of reducing duplication of services, public sector restraint, and government consultation with industry and labour. The need for intergovernmental consultations was stressed — especially when dealing with government expenditure, taxation, and borrowing policies. Indeed, the Prime Minister observed that "in order to serve the best interests of the Canadian public we absolutely must consult, consult and consult again."

The 1978 meetings were clearly significant, not simply because they represented an embodiment of the consultative process but also because of the concrete commitments made by First Ministers with respect to very diverse economic policy areas. Unfortunately, this initiative toward joint economic decision-making was suspended when the next First Ministers' Conference on the Economy, which was to have been convened in December 1979, was cancelled as a result of a general election.

Transportation Issues

Following a commitment made at the November 1978 First Ministers' Conference on the Economy to address the growing crisis in grain handling and transportation, the Government of Manitoba hosted a Conference in January 1979. The Conference was attended by the federal government, other western provinces and participants in the grain system. The Conference exemplified intergovernmental cooperation. At the Conference, governments jointly agreed to purchase new grain hopper cars to alleviate the shortage of rolling stock which was hampering grain exports. Subsequent to the Conference, the federal government established the Grain Transportation Authority to improve efficiency in the grain system. During this time, governments also cooperated in developing capital projects such as the coal and grain terminals. In addition, a number of joint studies were undertaken to examine potential improvements to western Canada's rail and port system. In summary, while significant long-standing transportation issues remained unresolved, some progress was achieved through interprovincial and federal-provincial cooperation.

Adversarial Federalism — Federal-Provincial Relations since 1980

A review of several events and issues illustrates the current adversarial trend in federal-provincial relations.

The Constitution

A major issue which produced severe tensions in federal-provincial relations was the federal government's initiataive with respect to the Constitution. At the September 1980 First Ministers' Conference on the Constitution, it was evident that the federal government would be taking a "hard line" approach to constitutional reform. On October 2, following the failure to reach agreement on patriation and a number of possible amendments at the Conference, the federal government announced its intention to patriate and amend unilaterally the Constitution. Conflict replaced cooperation. Consultation gave way to unilateral action. The majority of the provinces were strongly opposed to the federal government initiatives. It was not until after the Supreme Court of Canada's decision of September 1981, ruling that the federal action was legal but unconstitutional in the conventional sense, that the federal government agreed to resume intergovernmental negotiations. The federal government's action on the Constitution severely strained federal-provincial relations and furthered the sense of alienation in the West, and other parts of the country.

The 1980 National Energy Program

No example could better illustrate the danger of a government failing to respect another's jurisdiction — and opting for unilateral action — than the National Energy Program.

Despite efforts of the Government of Alberta to negotiate an energy agreement during the spring, summer and fall of 1980, the federal government announced the National Energy Program on October 28, 1980. For the first time, the federal government ***unilaterally*** set the price for oil and natural gas entering into interprovincial trade (which effectively meant most oil and gas) and imposed revenue raising measures designed to alter the fiscal balance in the federal government's favour. The federal energy taxes that the National Energy Program imposed at the wellhead constituted the equivalent of a federal royalty on a provincially-owned resource. These damaging unilateral initiatives signalled the beginning of serious tensions between the federal government and the Alberta

government on energy matters. While the federal government eventually returned to the bargaining table and in September 1981 signed a new energy pricing and taxation agreement with Alberta, federal-provincial relations had been clearly damaged by the federal government's announcement of the National Energy Program and the lack of consultation with the provinces. The impact on the industry, however, was even more devastating, as the policies contained in the National Energy Program and the uncertainty resulting from intergovernmental tensions took their toll on investor confidence and devastated individual investments.

Recent negotiations on energy matters between the federal and Alberta governments have been characterized by much less acrimony. However, it will take time before mutual trust and cooperation can be re-established. One of the most important and costly lessons to be learned from the National Energy Program is the need to return to more cooperative intergovernmental relations in order to realize Canada's full energy potential.

Decline of Cooperative Approach to Regional Economic Development

In early 1981 federal Ministers expressed publicly the federal government's intention to lessen the emphasis on federal-provincial cooperation in promoting regional economic development and concentrate on federally-funded and delivered programmes. Since then, on a number of occasions, the federal government has taken unilateral action to provide direct delivery of federal programming in areas previously cost-shared and jointly delivered with the provinces. This has been a major concern during the 1981, 1982 and 1983 Annual Premiers' Conferences. In their communique from the 1983 Annual Premiers' Conference the Premiers were emphatic that the "federal policy of unilateralism is wrong and is not reducing regional disparities."

Industrial and Regional Development Program

In 1983 the federal government announced a new programme of assistance to industry which supposedly would be sensitive to regional needs. The purpose of the programme is to stimulate economic growth. The programme was introduced without meaningful consultation with the provinces. There has been no commitment by the federal government that the programme will support provincial economic objectives. There is no provision for provincial participation in assessing the advisability of particular applications to ensure compatibility with provincial priorities and objectives.

Fiscal Arrangements

In the section which outlined the trend toward increased cooperative federalism in the seventies, the 1977 Established Programs Financing Arrangements were described as a landmark in intergovernmental fiscal cooperation. Within three years of signing and implementation, the federal government made known its intention to achieve significant savings in social transfers to the provinces beginning in 1982-83. In 1982 the federal government embarked on a series of unilateral amendments to the existing fiscal arrangements designed to reduce its fiscal obligations to the provinces and to increase its visibility and control with regard to the provision of social programmes.

The 1977 agreement had been fashioned out of lengthy and often difficult negotiations between the federal government and the provinces. Despite this precedent, the process of detailed consultations of previous years did not take place during the 1982 review of fiscal arrangements. Negotiations commenced in December 1981, less than four months prior to the date upon which the previous agreement would expire. The federal government subsequently enacted Bill C-97 in April 1982, unilaterally amending the *Federal-Provincial Fiscal Relations and Established Programs Financing Act*. The effect of the amendments was to reduce by an estimated $5.5 billion the federal contributions to health and post-secondary education relative to the projected contributions under the 1977 agreements.

In the spring of 1983, the federal government introduced Bill C-150 which separated the cash contribution for the post-secondary education, hospital insurance and medical care programmes, effectively undermining the principle (agreed to by all governments in 1977) of joint, unseverable block funding. In addition, the federal government imposed their "six and five" restraint programme on fiscal transfers for post-secondary education, limiting increases in transfers to six per cent for 1983-84 and to five per cent in 1984-85. These amendments highlight the federal government's determination to proceed unilaterally in an area which has a direct effect on the provinces' fiscal capacity.

In the health care area, proposals have been made to tighten further federal controls and conditions governing the provision of provincial health care services. Provincial fiscal responsibility for health care would be increased at the same time as the federal government reduces its commitment to social programme funding and places costly conditions on its financial contributions.

The federal government is demanding greater involvement in programme delivery while reducing its financial commitments relative to the provinces. The policy thread which links these federal initiatives is one of increased centralization of control over federal-provincial fiscal arrangements and programme development. Just as the federal government's attempt to patriate and amend unilaterally the Constitution threatened the delicate balance of our federal system, recent federal government initiatives in the area of fiscal arrangements undermine the federal system. Justified on the basis of an overwhelming federal deficit and the need for an increased federal presence, this increased control is being combined with a steady withdrawal by the federal government from its financial obligations for joint funding of social programmes. In sharp contract to the spirit and principles of the 1977 fiscal arrangements, these initiatives point to a trend of increasing federal control and decreasing provincial budgetary flexibility and programme autonomy in areas of provincial constitutional responsibility.

First Ministers' Conference on the Economy

Partly in response to the call for a conference by Premiers, and partly due to the deepening recession in Canada, the Prime Minister convened a First Ministers' Conference on the Economy from February 2 to 4, 1982, more than three years after the last conference had been held. At the Annual Premiers' Conference held in August 1981, Premiers had called upon the federal government to work with the provinces in developing "made in Canada" economic policies and proposed a nine-point recovery programme. The nine points put forward were consistent with the economic objectives agreed to by all First Ministers at the 1978 Conferences on the Economy. The First Ministers' Conference in 1982, however, was not structured to discuss progress made on the First Ministers' commitments reached at the 1978 Conferences. Moreover, during the discussions, it was clear there was a sharp divergence of views between the Prime Minister and the Premiers on the role of government in the economy and the measures required to restore economic growth. The Prime Minister stated that cooperative federalism was "dead" and that the federal government intended to regain fiscal strength relative to the provinces. The Conference failed. No agreements on economic strategies were forthcoming.

Foreign Investment Review Act

For a period of time, governments worked relatively harmoniously within the foreign investment review process. It is noteworthy that federal legislation specified existing provincial policy as one of the criteria to be considered in assessing foreign investment applications. Thus, there was a built-in mechanism for ongoing consultation with the provinces.

In 1980, federal unilateral initiatives related to the *Foreign Investment Review Act* began to increase. A growing proportion of decisions conflicted with provincial policies. Federal efforts to change the policy thrust of the *Act*, to make it more interventionist, proceeded without intergovernmental consultation even though the legislation continues to provide for provincial involvement.

Building for the Future: Prospects and Prescriptions

Building for the Future: Prospects and Prescriptions

Canada is a trading nation. International trade has been and will continue to be a critical component of Canada's economic activity. In 1968, exports accounted for 18.3 per cent of Canada's Gross National Product and by 1982 accounted for nearly 30 per cent of the Gross National Product. A larger percentage of the Gross National Product in Canada is attributable to trade than in most of the leading industrial countries. At least two million jobs are attributable directly to the export of Canadian goods and services, and another two million jobs are related indirectly to the export sector. Clearly, Canada's economic growth and future prosperity depend to a large degree on our successful export performance and participation in the international economy.

The past 15 years have seen an explosive expansion in world trade. Between 1968 and 1982, world export trade rose 600 per cent to reach US $1.94 trillion. Although Canadian exports also rose significantly during this period, they did not keep pace with world export growth. In 1968, Canadian exports accounted for 5.25 per cent of world exports; by 1982, Canada's relative share had dropped to 3.57 per cent. As noted at the 1983 Annual Premiers' Conference, Canadians should be concerned about this decline in Canada's share of world trade.

Alberta's reliance on exports is significant. The province's export shipments during the 1968-82 period grew by 373 per cent, from $1.98 billion to $9.39 billion. Alberta exports in 1982 accounted for approximately 25 per cent of the provincial Gross Domestic Product.

The International Environment

An important institution shaping and structuring international trade patterns is the General Agreement on Tariffs and Trade. The Agreement provides the essential rules governing a stable trading environment. Its mandate includes seeking reductions in tariff and other barriers to international trade. As an original signatory, Canada is committed to fulfilling its obligations and exercising its rights under the Agreement. Clearly the results of the Multilateral Trade Negotiations held by signatories to the General Agreement on Tariffs and Trade have an impact on Canadian trade behaviour and, in turn, on Alberta's opportunities to sell its products abroad.

Canada is now in the process of implementing commitments made during the Tokyo Round of the Multilateral Trade Negotiations. These commitments include reducing tariffs on industrial goods by an average of 40 per cent between 1980 and 1987, as well as implementing General Agreement codes covering such items as customs valuation, civil aviation,

and subsidies and countervailing duties. One of the effects of implementing tariff reductions will be pressure on Canadian manufacturers to restructure and rationalize their operations. Without structural adjustment to improve efficiency and competitiveness, Canadian manufacturers will be disadvantaged in selling into world markets. Moreover, they will be unable to compete against foreign imports in Canada.

The United States market is of major importance to Alberta and Canada as a whole. About 68 per cent of Canadian exports — and nearly 75 per cent of Alberta's exports — are destined for the United States. Canada's overwhelming reliance on the United States export market has important trade implications. In present circumstances, for example, a Canadian economic resurgence based on exports depends upon a broad based economic recovery in the United States which would increase demand for Canadian goods and services. Moreover, it means Canada is particularly vulnerable to protectionist measures adopted by the United States, whether in response to economic recession or as retaliatory measures to external events. The recent threat of a countervailing duty on Canadian softwood lumber shipments to the United States exemplifies the potentially damaging effects of United States protectionist actions. While trade with the United States will continue to play an important part in Canada's economic development, market diversification is essential to Canada's future prosperity.

The policies of the European Community have had a significant impact on Canada's access to the markets of the member countries and have reduced the competitiveness of Canadian products. In the Pacific Rim the dramatic growth of the Japanese economy, the emergence of newly industrialized countries in the region, and the demands for agricultural products in China have had and will continue to have increasing importance for Canada. Canada's international competitiveness and access to world markets have been affected by the opening up of potential new markets and by the presence of new competitors, such as Australia and New Zealand.

Rising protectionist pressures on Canada and our trading partners have been evident in recent years, in part due to the worldwide economic recession. Maintaining a freer trade environment is essential to a healthy Canadian economy. Protectionism threatens our existing markets and inhibits our ability to establish new ones. Canada has more to gain from freer trade and more to lose from protectionism than perhaps any country in the world. Our prosperity is tied — in every region of Canada — to our trade situation. The creation of new jobs will depend on our ability to penetrate new markets.

The Government of Alberta recognizes the major role of export trade in Canada's economic development and urges other governments to join with Alberta in giving trade a high priority. Canada must develop new structures, new approaches and new strategies in international marketing. These initiatives must be an integral part of Canada's overall trade policy.

The development of a trade policy for the eighties and beyond will require a full partnership among the federal government, the provincial governments and the private sector if Canada's full potential in this area is to be realized. The competitiveness of Canada's products is hindered by the lack of economies of scale, given our small population, and vast distances to most major foreign markets. Governments, therefore, have a special role as catalysts in the development and implementation of new marketing strategies.

Alberta's Export Economy

Alberta's economic history has been closely tied to two primary industries, agriculture and energy resources. Prior to 1947 the main stimulus for the Alberta economy was the agriculture sector. Since then, the exploration, development and production of oil and natural gas have been primary sources of economic growth. Historically, Alberta has been dependent upon the international market place to set demand and pricing for its major commodities. Changes in economic conditions elsewhere in Canada and internationally have often precipitated dramatic changes in the province's economic conditions.

In the latter part of the nineteenth century, a combination of economic and social factors led to the opening of the West. The development of a national railroad system, the settlement policies of the federal government and the "National Policy" of the 1870's were important influences in the development of the agricultural export base of western Canada. The National Policy was designed to develop a western economy to serve as a source of raw materials and as a market for central Canadian manufacturers. The transportation and tariff policies encouraged the development of a western export-oriented agricultural sector, dependent on international market forces, while protecting central Canadian industries.

Increasing world demand and prices for grains, particularly wheat, were keys to Alberta's prosperity for the first half of the twentieth century. The Great Depression of the thirties, however, was accompanied by the collapse of the international wheat market which, in turn, triggered the collapse of the prairie economy. Since the second World War,

agricultural consolidation and the adoption of new technologies have resulted in an increase in the value of agricultural production. Moreover, there has been some diversification of the sector, with a corresponding development of feed grain, oil seed and livestock markets.

Post-war economic growth has been influenced significantly by the development of Alberta's vast energy resources. Intense activity in the exploration and development of crude oil and natural gas has been evident since the war. A transportation and pipeline system was built to move Alberta's energy resources to markets. A number of related service and supply industries were established to serve the petroleum industry. In recent years, the upgrading of natural resources, such as the petrochemical industry, has become important to the Alberta economy. For all of these developments, large amounts of capital were necessary. The lack of sufficient capital available for investment within Alberta and the reluctance of Canadian banks and investors to invest in the province resulted in the need to attract foreign capital. This was particularly true in the development of the petroleum sector prior to the mid-seventies.

Alberta's historical experience leads to several conclusions. First, the vulnerability of an economy whose prosperity is primarily based on a single commodity has been demonstrated. The roller coaster effect of such dependence produces unacceptable social and economic costs. Development of our natural resources, and the further upgrading and processing of these resources within the province, will promote greater economic stability and growth. Second, the development of Alberta's economic opportunities has required significant infusions of foreign and domestic capital. Policies which discourage investment hinder development efforts in the province. Third, Alberta's economic growth and future prosperity depend on successful export performance and participation in the international economy. Efforts must be made to improve our competitiveness in, and to expand our share of, international markets. Fourth, federal economic policies have not been sensitive to all regions of the country. Whether Alberta is able to take full advantage of economic opportunities and to develop further its economic potential will depend to a great extent on how sensitive federal policies are to Alberta's needs.

Characteristics of the Alberta Economy: Strengths and Constraints

The achievement of Alberta's potential will benefit Canada as a whole. In order to maximize Alberta's opportunities, economic policies must be adopted which build upon existing strengths, develop new strengths and

work to overcome constraints. The most significant characteristic of Alberta's economy has been the important role of natural resources — renewable and non-renewable — in economic growth. Continued economic growth will be based, in part, on the further development of natural gas, oil sands, heavy oil, agriculture, forest products, and coal. While conventional oil resources are depleting, they remain important to the Alberta economy. There has been a dramatic increase in natural gas reserves during the past decade which provide a considerable addition to the province's proven resource base.

Alberta's rich endowment of natural resources in itself provides opportunities for diversified growth to supplement the primary production and export of these resources. Processing and upgrading of resources, and the export of knowledge and sophisticated technology in certain areas, such as synthetic oil production, are important. In addition, the strengthening and diversification of markets for Alberta goods and services will provide further stability and stimulus for economic growth in the province.

It is important to recognize, however, that Alberta's considerable natural resource strengths could not be developed without its people. Indeed, Albertans are the province's greatest strength. The accomplishments in the province have been due to the efforts of energetic, ambitious and capable individuals. The entrepreneurial spirit characteristic of Albertans has served the province and the country well.

The Government of Alberta recognizes the growing importance of women in the labour force. The participation rate of women in the Canadian labour force rose from 23 per cent in 1950 to 52 per cent in 1982. Alberta has the highest female participation rate at 58 per cent. Alberta is committed to ensuring their access to opportunities for education, training, employment and promotion.

Recognizing the necessity of a skilled and adaptable labour force for economic growth, Alberta has developed and supported a wide range of educational institutions and programmes to train and retrain people. The Alberta government realizes the necessity of providing young Canadians with the high level of technical expertise and skills necessary to compete in the dynamic world market place. For its part, the province supports four universities and a network of technical institutes and community colleges. A major initiative in this area is the $100 million Alberta Heritage Scholarship Fund which rewards excellence and encourages further achievement in scholastic, career and leisure activities.

Natural Resources

In recent years, economic growth in the province has been driven by the conventional oil and natural gas sectors. Under the *Natural Resources Transfer Act* of 1930, the interests of the Crown in all land, mines and minerals or royalties was transferred from the federal government to the province. More than 85 per cent of Alberta's oil and natural gas resources are owned by the Crown. In the northern regions of the province, where oil sands deposits are located, 100 per cent of the resources are owned by the Crown.

Alberta is the primary source of Canada's crude oil and equivalents, supplying approximately 85 per cent of Canada's requirements. Daily production exceeds 174,000 cubic metres. More than three quarters of a billion cubic metres of proven reserves remain to be developed. The life of conventional reserves has been extended through the development of new technology and enhanced (or tertiary) oil recovery projects. These enhanced recovery projects have been encouraged through special fiscal treatment by both the federal and provincial governments. The incremental oil produced from these projects has provided a significant addition to the province's conventional light oil reserves. The 1981 Energy Agreement and the June 1983 amendments to that Agreement provide for world prices for oil discovered and developed after 1973.

Alberta is Canada's main supplier of natural gas, providing 85 per cent of Canada's needs. In 1981, 76.5 billion cubic metres of gas were produced. Despite significant production, natural gas reserves are increasing. Remaining recoverable reserves are estimated at 1.8 trillion cubic metres with ultimate recoverable reserves of 3.8 trillion cubic metres. Access to markets has been critical to the pace and scale of natural gas development in Canada. Thirty-one per cent of Alberta's natural gas production is exported to the United States. In light of current soft markets for gas in the United States, governments and producers have made efforts to retain their market share by demonstrating flexibility in contracts and pricing in order to maintain the competitiveness of Alberta gas. The Alberta government also has made efforts in cooperation with the federal government to promote better understanding in the United States of the nature of Canadian gas pricing and has encouraged discussions on ways to market more effectively the province's large gas surpluses.

The impact of international and domestic developments on Alberta has been demonstrated in a variety of areas but none in such dramatic fashion as in the area of oil and natural gas pricing. International supply restrictions and rapidly increasing demand in the 1970's had a significant upward influence on prices and, consequently, on Alberta's economic development and its export trade. The changed terms of trade and

anticipated shortages in the North American market produced a boom in investment in exploration activities and pipeline construction. The uncertainty of the international oil market also induced significant investments in oil sands development. The attraction of these large-scale projects resulted in the in-migration of skilled workers from other parts of Canada and strong growth in other sectors of the Alberta economy.

Recent federal initiatives such as the National Energy Program have had a seriously negative effect on investor confidence and on the cash flow of the oil and gas industry, seriously damaging resource development in Alberta. Through incentives for exploration on federally-controlled frontier lands, the federal government has sought to shift exploration and development away from the western sedimentary basin. These incentives and other policies have encouraged a misallocation of investment and have built into the resource sector higher costs and inefficiencies.

Alberta's potential for synthetic oil production lies in the deposits of oil sands which underlay large sections of the northern and eastern regions of the province. The total in-place reserves of bitumen in these regions are estimated at 249.8 billion cubic metres. While only a small proportion of this oil is recoverable using current technology, additional research promises to increase the amount of oil ultimately recoverable. Commercial operations using surface mining techniques are already producing synthetic oil. In addition, in situ recovery projects have begun to operate on a commercial basis at Cold Lake and Wolf Lake. Project plans include the possibility of phased expansion of production and upgrading facilities during the coming decade.

Further development of Alberta's synthetic and heavy oil potential faces the challenge of developing new, more efficient, and less costly ways of extracting the oil. Technology will play a key role. Alberta has continued to work with the private sector through the Alberta Oil Sands Technology and Research Authority to meet this challenge and remains a world leader in this area. Private sector investment and world market prices for oil will remain important keys to the development of these resources.

The province has significant recoverable reserves of coal — 15.5 billion tonnes, representing about 70 per cent of Canada's total reserves. Production in 1981 was 18 million tonnes, representing 45 per cent of total Canadian production. While a large portion of Alberta's low sulphur thermal coal is used to generate the province's electrical power, a significant proportion of the province's metallurgical coal is exported to the Pacific Rim. The potential for the expanded production of coal, especially in response to increased long-term demand in the Pacific Rim, remains strong.

The anticipated increases in coal exports in the coming decade will require increased transportation capacity to move these exports to markets. Increased sales will be dependent on an efficient and less costly transportation system. In addition, research promises to provide ways of increasing the value added to the resource before it is shipped, and may provide for the development of new alternate transportation modes, such as a slurry pipeline system. The Alberta government actively promotes coal research in the province and recently has established a new coal research facility.

Alberta's resource strength also involves the production of renewable resources. With more than 50 million acres of farmland, Alberta has approximately 30 per cent of Canada's total. Moreover, Alberta is the only province capable of significant expansion of cultivated land. Crop production accounts for nearly 25 per cent of Canada's total. Producers in Alberta maintain one-third of Canada's cow-calf herd. By international standards, Alberta agriculture is rich in land, labour, technology and capital. The agricultural community in Alberta — and in Canada as a whole — is low-cost and highly competitive in terms of its efficiency and productivity. Areas of specialization include grain, the cow-calf industry, feed grain and oilseed production, hog production and specialty crops such as honey.

International and domestic market development is important in the continuing development of the agricultural sector. Canada must not be complacent in the area of grain trade and must make every effort to ensure that our traditional markets are not lost to our competitors. In Canada, artificial barriers which inhibit market expansion for efficient producers must not be created. Farmers' marketing agencies such as commodity groups, boards and commissions have provided and should continue to provide valuable assistance to farmers in the sale of agricultural products. Their role should be limited to that of supplementing the efforts of individual farmers in the market place. Supply-management is not conducive to the well-being and growth of the agricultural industry. Ways must be found to overcome the difficulties associated with existing supply-management practices. In addition, agricultural policies which focus on transfer payments and subsidies for production for local markets tend in the long run to reduce efficiency of production and restrict economic potential.

In addition to its energy and agricultural base, the province has substantial untapped forestry reserves, with 60 per cent of its land area covered in forest. It is one of the few areas of the western world which has a significant supply of available timber for future development. Alberta's management of its forest resource is designed to maintain and enhance future supply.

Over the past decade, there has been a strong trend to larger, more centralized operations which offer economies of scale and improved productivity. There is a need for research and market development to utilize the untapped hardwood resources of Alberta's forests. Ways must be found to facilitate the introduction of new technology and the establishment of plants in remote areas. Existing sawmills require modernization in order to optimize the use of the timber resource and facilitate further upgrading into pulp and paper products.

Processing and Service Industries

The development of Alberta's varied and significant resources has strengthened the economy through the establishment of related industries. Developments in the exploration, production, transmission and refining of energy resources has led to the establishment of a wide range of oil-service industries and equipment suppliers. A competitive service sector specializing in seismic, geological and geophysical engineering and management consulting also has been developed. The construction industry has grown substantially to support the expanding resource-based industries. The upgrading of natural resources, in both energy and agriculture, has encouraged the further development of manufacturing in the province in such areas as food and beverage processing, petrochemicals, metal fabricating and machinery, and new high technology areas such as telecommunications and micro-electronics.

Alberta's natural beauty has formed the basis of one of the province's major industries: tourism and recreation. The potential in this area is virtually unlimited. Alberta recognizes that renewable and non-renewable resources must be managed in ways which preserve the province's natural beauty and enhance tourism and recreation opportunities. National passenger rail transportation and parks policies will play an important role in efforts to expand this sector. Hosting of world events such as the XI Commonwealth Games (1978), the XII World University Games (1983) and the World Scout Jamboree (1983) promotes Alberta abroad. Moreover, the 1988 Winter Olympic Games will further help to realize Alberta's tourism and recreational potential. Alberta benefits from various cultural events held throughout the province, such as Heritage Days which celebrate Alberta's cultural mosaic.

The energy boom and consequent rapid economic growth during the 1970's promoted the development of a broad-based financial sector in Alberta. Two new chartered banks were established and existing chartered banks opened regional offices in the province. The province gained additional trust companies, investment and insurance companies. Treasury Branch, credit union and foreign bank growth also was significant. In addition, the Alberta Stock Exchange has become an

important financial structure for Alberta industry. Dollar volume of business on the exchange registered $427 million in 1981, a vast increase from the $12 million reported 10 years earlier. Alberta is well positioned to become a major international financial centre, particularly with respect to investment funds for international energy developments.

The small business sector in Canada generates 42 per cent of all business employment and 80 per cent of all innovations. The vitality of the small business sector in Alberta has supported and has been supported by the primary resource sectors. A major proportion of Alberta industries, especially in the construction, retail and service sectors, have annual sales of less than $2 million. Small and medium-sized firms are key elements in carrying out innovative practices that lead to growth and job creation.

Many areas of economic opportunity in Alberta, such as the oil sands, forestry and hydro-electric development, are located in relatively remote northern areas of the province. Native peoples must be given an opportunity to share in the benefits of economic activity occurring in their respective communities. The establishment of the Alberta Native Venture Capital Corporation and the Business Assistance for Native Albertans Corporation is designed to promote Native economic development. The Native Venture Capital Corporation provides equity investments to Native businesses meeting established economic criteria. The Corporation complements the activities of the Business Assistance for Native Albertans Corporation which is designed to provide Native peoples with business advice.

Alberta's geographic location has provided an opportunity for the province to serve as a major supplier of goods and services to the north. This role can be enhanced and expanded, to the mutual advantage of Albertans and northerners, through the application of private sector expertise and technology as resource exploration and development proceeds in Yukon and Northwest Territories. The increasing contact between Albertans and the peoples of Yukon and Northwest Territories has led to a greater awareness of and support for the aspirations of our northern neighbours.

Tools of Economic Development

Investment has played a crucial role in Alberta's economic growth. Insufficient domestic investment capital has resulted in the need to

attract investment from foreign sources. Foreign capital fostered an agricultural export economy in the first part of the century and allowed for the rapid development of the petroleum industry following the second World War. Many of Alberta's future development prospects — oil sands, coal mining, petrochemicals, high technology — are capital intensive. New investment capital from both domestic and foreign sources will be necessary. This will only be possible if foreign investors are welcomed, and if a domestic economic climate exists which encourages investment by Canadians in Canada.

Transportation is a major factor affecting Canada's ability to market its goods and, as such, it is essential that the Government of Canada fulfill its obligations to improve the transportation system. Transportation has been and continues to be a primary influence in the realization of Canada's economic potential, and it affects Canada's international competitiveness. In Alberta, an extensive intraprovincial transportation network has been developed. However, the lack of an efficient and competitive interprovincial transportation system remains a serious impediment to economic growth. Shippers of non-liquid bulk commodities have no alternative to the rail system and do not receive the benefits of market forces. Pricing policies have led to freight rate anomalies which have created market distortions and barriers to economic diversification.

Efforts must be made to reduce the transportation cost component and provide sufficient capacity for increased exports if Canada is to be internationally competitive. For its part, Alberta has contributed to the expansion of the transportation system's capacity through the purchase of 1,000 grain hopper cars and three inland grain terminals, and has provided financial assistance to west coast port developments.

Canada's future economic development will depend in part on an appropriate coordination of basic and applied research and the timely adoption of new technologies by industry. This is a major challenge facing Canada. Our competitive position will be influenced by how well and how fast our industries can adopt new technologies and how successful we are in marketing technological expertise.

New technologies are often developed by individual inventors and entrepreneurs, or result from numerous day-to-day changes made in the production process. Recognizing the important role of technology, Alberta has supported research and development efforts, including innovation and commercialization of new ideas, both through its academic institutions and in joint operations with industry. Major initiatives have included a $186.4 million commitment to the Alberta Oil Sands Technology and Research Authority, research expenditures of $27.7 million in 1981-82 by the Alberta Research Council, a $200 million loan to Vencap Equities Limited, the $300 million Alberta Heritage

Foundation for Medical Research Endowment Fund, and $17.5 million to the Farming for the Future programme. In addition, $28 million has been spent on the establishment of the Alberta Environmental Centre in Vegreville to assist research in this important area.

Alberta's Trade Initiatives and Prospects

Recognizing the importance of trade to the province's future prospects, the Alberta government has been active in international trade and investment promotion. The Premier of Alberta has led a number of major economic missions to Japan (1972), Europe (1975), the Soviet Union and Middle East (1977), and Japan, China and Hong Kong (1983). These efforts have been complemented by the expansion of trade development programmes and resources in the departments of Agriculture and Economic Development. Specific initiatives that the Government of Alberta has taken include the following:

- In 1979, Alberta appointed the first minister in Canada specifically responsible for international trade. This initiative has allowed high level promotion of Alberta's trade interests and has been of significant assistance to the Alberta business community;
- The province has expanded its network of foreign offices to cover major commercial centres of the world to gather information, to represent Alberta's interests and to assist private sector initiatives;
- Another initiative unique in Canada is the establishment of special affiliations between Alberta and provinces in Japan, Korea and China. Friendship and cooperation agreements with Hokkaido, Gangweon and Heilongjiang have facilitated the promotion of improved relations through cultural, sport and educational exchanges, and have contributed to expanded commercial activities. They provide a window from which Alberta increases its awareness and understanding about the respective regions and market prospects.

Alberta's export prospects hold considerable promise. The past decade has seen a broadening of Alberta's secondary manufacturing base and the establishment of modern, efficient manufacturing industries, especially in such areas as the supply of products to the energy resource sector, in further processing of our agricultural products and other natural resources, and in high technology industries. Alberta also has developed a comparative advantage in livestock and the production of grains, oilseeds, meat and a variety of other agricultural products. Development of Alberta's extensive forest resources has just begun. Increasing the international competitiveness of Alberta forest products will contribute to further expansion of that sector.

Canada has internationally recognized technical skills and talents which allow it to be competitive in many areas. In Alberta, services are becoming an important new sector in Alberta's export trade. These services include management and engineering, heavy oil technology, sour gas processing, deep well drilling and synthetic oil facilities. Alberta competes internationally in certain advanced technology industries such as health care products, all-purpose vehicles and petrochemical plants. The introduction of new technologies in food processing, cold climate materials, equipment manufacture, and the energy fields will contribute to the strengthening and diversification of Alberta's exports.

Alberta's Economic Potential within Canada: Objectives and Policies

Following are the economic development and trade policies which will be required if Canada is to achieve its economic potential.

- **Maintain an Environment Conducive to Investment**

  The development of Canada's economic potential will require substantial amounts of investment capital from both domestic and foreign sources. In order to attract the necessary capital, investors must be assured that risks will be appropriately rewarded and that the rules of the game will not be arbitrarily changed. An economic climate which encourages the private sector to provide the required investment must be restored.

  Unfortunately, the attractiveness of Canada as a location for foreign investment has been damaged in recent years by the National Energy Program and the Foreign Investment Review Agency. An impression has been left that Canada does not welcome foreign investment. This impression must be altered. While some changes have been evident recently in the performance of the Foreign Investment Review Agency, they need to go further. The federal government must support the efforts which Alberta and other provinces have made to reassure foreign investors.

- **Maintain and Improve Market Competitiveness**

  Alberta and Canada must compete in world markets and, therefore, must constantly strive to maintain the world market competitiveness of their products. Products, processes and services must be reliable, functional, aesthetically pleasing, and appropriately priced. This will require the development of an even greater capacity to innovate, to adapt quickly to new ways of improving productivity, and to compete in the international market place. Such innovation in the economy needs to be stimulated through appropriate rewards and incentives. Corporate export consortia, capable of competing with international firms, should be encouraged to promote our trade opportunities. Moreover, society must become more attuned to the need to strive for increased world market competitiveness and must resist the inflationary and unproductive costs of excessive wage demands.

- **Expand Markets and Reduce Trade Barriers**

  Domestically, provinces and the federal government must reject policies which distort the market economy and which artificially create advantages for a particular region. Efforts must be made to promote the development of all regions in Canada through policies sensitive to regional needs.

  Access to foreign markets for Canada's goods and services is vital to economic growth and prosperity. Canada must continue to resist protectionist measures, both domestically and internationally. Canada must be receptive to other countries' exports if it expects to export in turn.

  Trade policies which shelter uncompetitive industries or industries in decline are costly and ineffective. They also invite retaliation that may deny market access to Canadian exports. Such policies should be refocussed; the emphasis should be on rapid adjustment to the conditions of international competition. It is clear that Alberta, like Canada, relies heavily on a stable, open international trading environment. Maintaining a freer trade environment is essential to a healthy Canadian economy. While there may be some short-term costs associated with Canadian adjustment to freer trade, the gains will be substantial and enduring to all segments of the economy. For both large and small producers, the movement toward freer trade will mean increased foreign sales opportunities and rising profits. For the consumer, the reduction of trade barriers will bring lower prices and greater product selection.

Both Alberta and Canada must continue to press for greater access to international markets for our producers by working toward the reduction and elimination of trade distorting tariff and non-tariff barriers, as well as increasing direct overseas contacts. In particular,, the federal government should vigorously pursue work plans in the General Agreement on Tariffs and Trade which lead to the elimination of barriers to trade in agricultural, petrochemical and forest products, and service exports.

The Government of Alberta supports a multilateral approach to trade negotiations designed to reduce barriers to trade through participation in such institutions as the General Agreement on Tariffs and Trade, the Organization of Economic Cooperation and Development, the International Monetary Fund, the World Bank, and other international bodies dealing directly with trade issues. Efforts made through these institutions aid in the development of both international codes of conduct for trade and dispute settlement procedures that help to minimize trade distorting actions and the problems associated with trade disagreements. Multilateral trade arrangements help ensure fairness among all trading nations.

While Alberta is committed to expanding trade through multilateral forums, it also is recognized that immediate opportunities can and should be pursued on a bilateral basis. Bilateral trading arrangements, perhaps focussing on particular priority sectors — such as petrochemicals — should be considered. The United States has indicated a willingness to review sectoral trade arrangements and Canada must take advantage of this opportunity to expand access to that market.

- **Develop Effective Trade Promotion Instruments**

Trade promotion efforts, especially expanded export marketing activities and adequate export financing capabilities, are integral to the expansion and development of markets for Canadian and Alberta goods. The subsidization of export financing by foreign governments has presented an important competitive challenge to Canada in both traditional and new markets. The Government of Canada must meet this challenge to ensure that Canada's market share in particular countries, as well as its world market share, are not further eroded. However, the Government of Alberta believes that such subsidies must be gradually reduced and ultimately eliminated worldwide.

The Alberta government's trade development efforts have been central to the tremendous increase in exports experienced since the late seventies. Close consultation is maintained with the private sector to ensure that provincial export programmes and other assistance are appropriate to the needs of the export community.

Potentially important impediments to trade promotion exist in federal legislation. Among the more significant is the *Combines Investigation Act*. Modification of this legislation is required to ensure that businesses wishing to form export consortia are permitted to do so without legal repercussions.

- **Expand Provincial Participation in International Trade Discussions**

  Efforts should be made to expand provincial participation (as observers or full delegates) as members of Canadian delegations to international discussions, particularly the General Agreement on Tariffs and Trade negotiations, the International Energy Agency, and certain important bilateral consultations. Alberta has long advocated increased provincial involvement in international discussions, especially those where there could be a direct and significant impact on specific provinces or industrial sectors. The province has called for provincial representation on Canadian delegations to General Agreement on Tariffs and Trade discussions and in numerous bilateral discussions, such as those with the European Community, the Soviet Union and Japan. Annual Premiers' Conferences in the past have called for joint federal-provincial cooperation in developing and improving Canada's relations with the United States and have indicated that provinces should be involved in General Agreement on Tariffs and Trade ministerial conferences.

- **Improve the Transportation System**

  An effective interprovincial transportation system is vital to successful trade and economic development policies in Canada. Alberta is located farther from tidewater, without direct water access, than most of its world competitors. In order for Alberta to compete effectively, the province requires the most cost-efficient and productive transportation system possible, not only for the province's grain producers but also for forestry, coal, petrochemical, and other exporters.

  An efficient transportation system must be based on competition among various transportation modes. Producers need to be able to exercise choice as to which mode of transportation suits their needs. As well, competitive rates for shippers would contribute to the competitiveness of Canadian products abroad. National policies must recognize that transportation is an essential instrument for economic development.

- **Encourage Innovation and Adoption of New Technologies**

The importance of science and technology in enhancing Canada's productivity and improving Canada's competitiveness internationally must be recognized. Research and development by themselves have little economic benefit. Their results have to be put in practice or commercialized in order for society to reap significant benefits. Therefore, encouragement of research and development is necessary but not sufficient — we must ensure that the adoption of new technology is not only encouraged but is, on balance, successful. While leadership in applied research and product innovation must rest with the private sector, governments can play an important role as catalysts in ensuring that Canada maintains the necessary capacity to engage in research, and to develop and adopt the new technologies which will be needed to maintain international competitiveness.

Government funding to universities and research councils needs to be maintained. It is important that efforts continue to ensure that publicly funded research results are shared with and adopted by industry on a timely basis. For instance, the Alberta Research Council and the Alberta Oil Sands Technology Research Authority have, in conjunction with the private sector, supported the development and adaptation of the necessary technologies and expertise to increase efficient extraction of energy from Alberta's massive energy resources, such as the oil sands. Alberta has a distinct international comparative advantage in this field. Research and development in Alberta's resource extraction industries can lead to new activities through the marketing of expertise and technology to other resource areas both in Canada and abroad.

Governments also can encourage innovation and research in the private sector by providing a tax system and an economic environment which provide incentives and rewards to those companies and individuals who are incurring risks through innovation. The recent establishment of Alta-Can Telecom Inc. and Vencap Equities Alberta Limited, and entities such as the Alberta Opportunity Company, provide financing for many of the firms who might otherwise lack the capital to undertake these activities.

- **Provide Appropriate Education and Job Retraining Programmes**

All Canadians must be given the opportunity to learn new technical skills in order to compete in dynamic world markets. Education and job retraining programmes will have to be designed to keep pace with the expected rapid technological developments of the future. Major changes in mandatory core content in our basic educational system

may be required. Educational goals and activities must be coordinated with other public and private agencies to ensure systematic development through communication and application of knowledge and innovation.

- **Encourage Small Business**

  Canada's small business sector is one of its greatest strengths. Small business has the ability to adapt quickly in response to changing market conditions. Experience has shown that many of the jobs created and innovations developed within the private sector have come from the activities of small business and individual entrepreneurs. Government policy makers — both federal and provincial — must be sensitive to the role and needs of small business, creating an atmosphere where the entrepreneur can be successful. The burden of taxation and regulation must not become too heavy for the small entrepreneur to bear. Initiatives in financing, technical assistance for product innovation and invention, and international marketing assistance must also be oriented to the small business community.

- **Promote Tourism and Recreational Development**

  The potential for tourism and recreational development in Canada is significant. In Alberta, the development of the eastern slopes of the Rockies is important to the expansion of this sector. National passenger rail transportation and parks policies will impact on the realization of Alberta's tourism and recreation potential.

Key to Prosperity

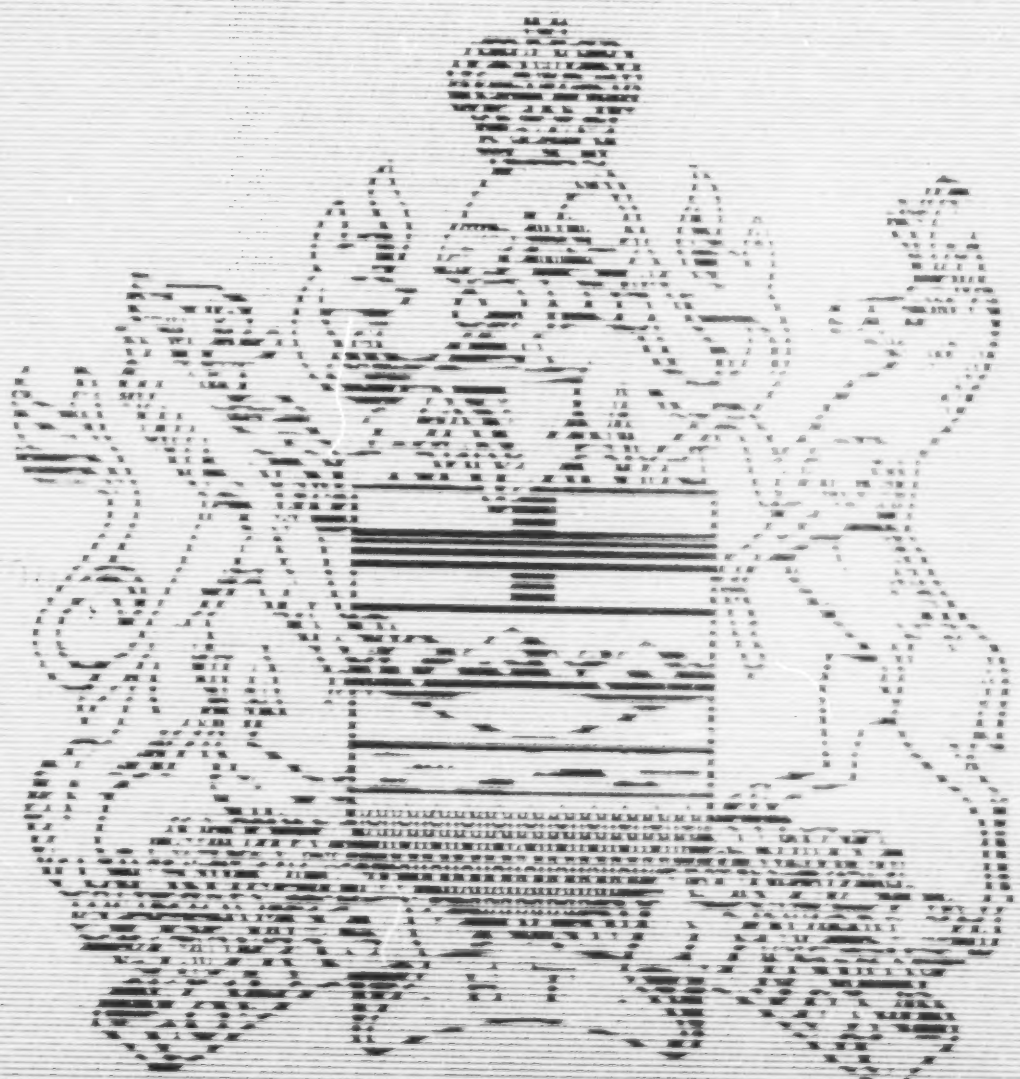
Canada's and Alberta's international competitiveness rests on a domestic policy of building on our natural strengths and developing new ones. As a province, Alberta's rich natural resources and the existence of an educated, talented populace forms a strong foundation for economic development strategies.

This foundation will be strengthened and reinforced with concerted federal-provincial efforts to enhance Canada's international competitiveness and to develop trade policies that strengthen and expand our share of international markets. This will require all of the following:

- government-private sector cooperation in locating and targeting new international markets;
- efforts to reduce tariff and non-tariff protectionist barriers;
- speedy adoption of new technological developments;
- encouragement of corporate export consortia;
- adjustment policies designed to encourage structural adjustments in internationally uncompetitive industries;
- an efficient transportation system to move products both within Canada and to foreign destinations;
- increased productivity of both business and labour;
- development of a climate of confidence to encourage investment; and
- greater provincial involvement in international trade organizations.

Each region of Canada has strengths upon which it can build. Some shifting of the population base is inevitable due to the changing structure of the Canadian economy. However, Canada as a nation will be stronger, more competitive and efficient, in a system that respects the diversity of Canada and allows each province to realize its full potential. A more efficient and internationally competitive Canada is in the interest of all Canadians.

Review of Major Themes



Review of Major Themes

An overriding theme throughout *"Alberta in Canada: Strength in Diversity"* has been the paramount role of the private sector in maximizing economic opportunities and promoting economic growth. It is through an ongoing commitment to the market system that individual Canadians have the best opportunity to realize their economic and social well-being. Individuals should rely more on private sector decisions and less on direct government intervention in the economy.

Governments can play an important complementary role in providing a stable environment for generating new economic opportunities. In addition, they have responsibilities for balancing economic and social objectives, supplying certain public services, and reducing individual and regional disparities. The issue which must be addressed is the appropriate degree of government involvement in our market economy.

The Alberta government is concerned about the increasing trend toward greater government intervention in the economy to resolve Canadian problems. What is required is a sharper focus on the costs of, and rationale for, each intervention in the economy. Direct intervention interferes with the proper functioning of the market system, thereby reducing the economic opportunities available to Canadians. Taxation policies, regulatory measures and economic development initiatives should, therefore, be structured to improve, rather than impair, the incentives and rewards for individuals to participate in market-generated economic activity.

Escalating government expenditures to provide services to citizens and to reduce the income disparities of individuals and regions have contributed to budgetary deficits. The capacity of governments to provide such services is directly related to the inflow of revenues. When these revenues are diminishing it is difficult to maintain existing programmes, let alone create new ones. What is needed for the future is a reorientation toward creating more economic opportunities, rather than redistributing shrinking economic shares. This can be accomplished through increased reliance on private sector investment.

By reaffirming the role of the private sector and by reversing the trend toward direct government intervention in the economy, governments can create a predictable and stable economic environment. Moreover, concerted government-private sector consultations on economic matters will contribute to this environment.

A second theme has been to revitalize intergovernmental relations. Shared constitutional responsibilities, the potential impact of one government's economic policies on another's, new areas of responsibility, and imbalances between the constitutional responsibilities and fiscal capacity of the provinces characterize Canada's interdependent federal system. Addressing the problem of interdependence requires a commitment to the consultative process and renewed efforts to coordinate policies. These measures would contribute to a spirit of mutual trust and a renewal of cooperative federalism. In this regard, it is important that provinces participate fully in the formulation and implementation of Canadian economic policies affecting them. By managing intergovernmental relations in ways which reduce unnecessary and excessive intergovernmental tensions, governments can provide a more positive climate for private sector activities.

Canada must remain a federal state. To make our federal system operate more effectively, certain significant changes must be made to our basic institutions to ensure that they more accurately reflect the federal nature of Canada. These changes, together with a firm commitment to make the intergovernmental process work, will enable the federal system to be more responsive to the economic and social needs of Canadians.

A third theme has addressed the challenges posed by an increasingly competitive international environment. Canada is a trading nation, dependent on its capacity to export resources, goods and services. At the same time, Canada's economic development depends on a significant and continuous flow of international investment. In meeting the conditions of the changing international environment there is much that the governments of Canada can do to maximize economic opportunities. It is imperative that Canadian policies and Canadian industries not be stagnant but be flexible enough to take advantage of evolving opportunities. With nearly 30 per cent of our Gross National Product dependent upon international trade, Canada cannot insulate itself from the outside world. We must be prepared to undertake the adjustment necessary to remain — or to become — competitive in the international market place. Government policies must encourage structural adjustments in those industries which cannot now compete in the international arena.

Canada cannot afford to build protectionist barriers designed to preserve declining industries. The Canadian economy must remain open, and must seek out and accept the development of new technologies, new processes, and new systems which can improve the competitiveness and long-term viability of our industries. Canada's future prospects also will depend on our ability to develop and adopt new technologies, and to attract new developments and new investments from external sources. The economic environment in Canada must be receptive to international investment and technological advances so essential to the diversification and expansion of the Canadian economy.

A fourth theme has been that of building on Canada's natural resource strengths and human talents. Each province offers a different mix of economic opportunities. One of the primary factors in ensuring the development of the slow growth regions is to promote economic expansion in all regions. Regional economic development initiatives in slow growth areas must not impede the development of economic opportunities in other parts of the country.

Some of the challenges Canada must address are externally imposed, such as trade related issues. Governments must not work at cross purposes with one another, and must complement private sector activity, to secure the advantages of future trade and investment in an increasingly competitive international environment. A positive environment, characterized by predictability and stability, would enhance the private sector's capability to achieve Canada's economic potential. In their intergovernmental relations, governments can contribute to this positive environment by working together in an atmosphere of mutual trust.

Canada's strength lies in the diversity of its provinces and regions, and the talents of its people. By working together as partners, and by building upon these strengths, we can each contribute to Canada's economic well-being. Albertans — indeed, all Canadians — are endowed with the spirit to meet the competitive challenges of the future.

Alberta in Canada:
Strength in Diversity

A Government of Alberta Discussion Paper

Introduction

This publication highlights the issues and perspectives presented in "*Alberta in Canada: Strength in Diversity*", a major discussion paper on the economy. Prepared by the Government of Alberta, the document encourages public dialogue on the future economic prospects of Alberta, and of Canada as a whole.

Highlights

Alberta has vast potential and significant opportunities. Its natural strengths are considerable: rich farmland, vast energy resources, large tracts of forests, abundant water supplies, a varied and scenic countryside, thriving urban centres, and a creative, highly educated, and industrious populace. However, as a land-locked province with a relatively small population base, Alberta has faced some difficult problems in its efforts to build upon its natural strengths. To a considerable extent, these problems have been aggravated by federal trade, transportation, energy and economic development policies. The lack of capital available for investment within Alberta, and the reluctance of Canadian banks and investors to invest in Alberta, resulted in the need to attract foreign capital. This was particularly true in the development of the petroleum industry prior to the mid-seventies.

Historically, Alberta's prosperity has been dependent on international market forces for the sale of its key commodities — grain and, since 1947, crude oil and natural gas. Recognizing the need for some diversification and a more balanced pattern of economic growth in all regions of the province, the Government of Alberta, since 1972, has fostered an environment which has encouraged the private sector to build upon the province's strengths. A number of policy measures have been initiated which have provided the foundation for private sector initiatives and have reduced impediments to economic development. The basis for future development and growth has been laid.

Much of Alberta's current economic strength is dependent upon depleting natural resources. A unique challenge of the provincial government was to ensure that the income derived from the sale of these resources was equitably shared between present and future generations. In 1976, Alberta created the Alberta Heritage Savings and Trust Fund to set aside a portion of resource revenues so that future generations of Albertans also could benefit from these resources. Its policy measures have included a "savings trust" philosophy, which has assisted in establishing an attractive investment climate and a mood of confidence regarding Alberta's economic opportunities.

Other policy measures and initiatives introduced by the Government of Alberta include:

- extensive trade promotion efforts both to assist Alberta industry in penetrating world markets, especially in the Pacific Rim, and to encourage investment in Alberta;
- support of research and development through such agencies as the Alberta Research Council, the Alberta Oil Sands Technology and Research Authority, the Food Processing Development Centre, and the Farming for the Future programme;
- stimulation of the growth of a scientific and academic community through the Alberta Heritage Scholarship Fund and the Alberta Heritage Foundation for Medical Research Endowment Fund;
- investment in the transportation system, such as purchasing grain hopper cars and inland terminals, supporting the development of port facilities in Prince Rupert and Vancouver, and expanding road and airport facilities;

- investment in the improvement and expansion of the irrigation system;
- investment in enhancing and renewing the forestry resource;
- establishment of recreational areas; and
- expansion of available capital through the Alberta Opportunity Company, Alberta Agricultural Development Corporation, Alberta Home Mortgage Corporation, and Vencap Equities Limited.

The private sector has responded to this climate for investment. It was instrumental in developing a petrochemical industry in Alberta, expanding the production and processing of forestry and petroleum products, bolstering the food processing industry, fostering a growing financial sector within the province, and enlarging the tourism sector. These successes provide a foundation upon which Albertans can build for the future. In order to fully realize our potential, however, greater efforts must be made to upgrade our resources within the province and to strengthen and expand our markets.

Overview

The purpose of *"Alberta in Canada: Strength in Diversity"* is to share with Albertans, and indeed with all Canadians, the views of the Alberta government on issues related to Canada's and Alberta's future economic prospects and the full realization of the province's and the country's tremendous economic potential.

- Several themes are developed throughout the paper:
  - because Canada is dependent on foreign markets, Canadians must take measures to meet the challenges of a world in which these markets are increasingly difficult to penetrate and maintain;
  - the private sector is the driving force of economic growth;
  - through increased productivity and economic growth, the economic and social well-being of Canadians can be improved;
  - governments have an important role to play in creating a positive climate for private sector initiative;
  - Canada's economic potential lies in recognizing and building upon the strengths of its provinces and regions; and
  - governments in Canada must renew their commitment to intergovernmental cooperation and consultation.

The Market Economy and Government-Private Sector Relations

- The private sector is the driving force of the Canadian economy. Only with a dynamic private sector can Canada achieve its economic and social goals.

- The size of government relative to the economy may have reached a level where it is incompatible with a dynamic private enterprise system. The governments' share of the Gross National Expenditure has doubled in the past 30 years. The Government of Alberta does not believe the government share of expenditure can be increased further. Canadians, therefore, must establish priorities for the services to be provided by governments in the future.

- An important issue to be addressed by Canadians is the appropriate degree of direct government involvement in the economy through Crown corporations, economic regulations, grants and subsidies.

- Direct government intervention in the economy through such federal policies as the National Energy Program and the Foreign Investment Review Agency have been imposed at a substantial costs to the Canadian economy. Such interventions must be corrected and not be repeated.

- Canada must re-assert its commitment to the market system and adopt policies which will improve its performance. Policies should not interfere with rewards to hard-working individuals and risk-takers and should encourage savings and investment. Profits — the reward for risk-taking and job-creating activities — must be recognized as a sign of economic vitality and growth.

- The basic role of governments in Canada should be to provide a stable environment which builds the confidence of the private sector and, therefore, allows economic benefits to be created in the most effective manner. Governments also have the responsibility to provide services which the

private sector would not otherwise provide and to reduce disparities between regions and individuals.

- Social needs of Canadians cannot be met unless the economy is strong and vibrant. Programmes which are necessary to care for those who are unable to provide for themselves are an accepted responsibility of governments. The operating costs of social programmes cannot be met by borrowing on future generations, but only by appropriate revenue-raising measures which can be borne by a strong economy where profits and incomes are sufficient to bear these social costs.

- In fulfilling their economic responsibilities, governments must reduce the regulatory burden on the lives of citizens and the economy.

- In order to foster economic growth, government fiscal and economic policies must be stable, well-understood, and, to the greatest extent possible, formulated in consultation with the private sector.

- Elimination of large, recurring government deficits should be an important goal of governments, to prevent a resurgence of inflation and allow lower interest rates.

- Governments must work toward reducing artificial trade barriers within Canada.

- Governments should ensure that public sector wages follow, not lead, private sector wages.

- Governments also have a role in facilitating better relations between business and labour.

Intergovernmental Economic and Fiscal Relations

- Canada's vast size and its inherent social, cultural and economic diversity necessitates a federal system of government. Canada could not exist as a unitary state controlled by a single government remote from the people. The Alberta government believes strongly in the Canadian federal system and believes that harmony in diversity can be achieved.
- Both orders of government should participate in the formulation of Canadian economic and fiscal goals and objectives.
- The high degree of interdependence between the federal and provincial governments in important economic and fiscal policy areas requires frequent intergovernmental consultation and cooperation.
- Intergovernmental relations must be understood and managed in ways which contribute to a stable and predictable environment. Some differences of opinion are inevitable in a federal system; indeed, such diversity can be a creative and dynamic force. However, excessive or unnecessary intergovernmental tensions reduce the effectiveness of the policies of both orders of government and serve to create uncertainty.
- A renewed commitment by all governments to cooperative federalism is necessary. In recent years, unilateral federal action has replaced joint planning; federal intrusion into areas of provincial constitutional responsibility has replaced federal-provincial coordinated activities.

- The 1976 federal-provincial negotiations on fiscal arrangements, concluding in a new funding arrangement for the major social programmes of hospital care, medical care and post-secondary education, were a hallmark of the spirit of cooperative federalism. The federal government's recent unilateral modifications of these cost shared programmes has jeopardized their future effectiveness, and indeed, is threatening the unity of the country. The federal government is demanding greater involvement in programme delivery while reducing its financial obligations to the jointly funded programmes.

- The Alberta government proposes four principles as the basis for a renewed era of cooperative federalism. These are:

  - provincial economic diversity should be acknowledged as a source of strength in the Canadian economy;
  - both orders of government should have an appropriate share of revenues to carry out their constitutional responsibilities;
  - the constitutional responsibilities of each order of government should be understood and respected; and
  - coordination among governments should be increased where constitutional responsibilities are shared or where one government's actions are likely to have a significant impact on another's.

- The Government of Alberta suggests a number of specific measures to improve the operation of Canada's federal system. These include:

  - a constitutional requirement that a First Ministers' Conference be held annually at a fixed time to ensure consultation and

cooperation in the development of Canadian economic, fiscal and social strategies;

- reforming the Upper House to ensure a greater degree of sensitivity to provincial and regional objectives, interests and concerns;
- provincial participation in the composition of those Courts which have a responsibility to interpret the Constitution. In particular, provinces should have a role in the selection and appointment of members of the Supreme Court of Canada to ensure the composition of the Court reflects the federal nature of Canada;
- limiting the use of the federal spending power in areas of provincial responsibility. In cases where the use of the spending power may be required to achieve important national goals, such as the alleviation of regional disparities, prior consultation and joint planning with the provinces are essential;
- increasing the provincial share of joint federal-provincial tax revenues, so that the provinces have access to sufficient revenues to provide the major social programmes — such as health care and education — within their constitutional responsibilities; and
- providing for provincial participation on federal economic boards and agencies such as the National Energy Board, Canadian Wheat Board, and Canadian Transport Commission, in order to ensure their sensitivity to provincial and regional needs and interests.

Building for the Future: Prospects and Prescriptions

- Canada is a trading nation. International trade is a critical component of Canada's economic activity. To enhance our international competitiveness, Canada must develop trade policies which enable us to recapture and expand our share of international markets. The federal government, provincial governments and the private sector must work in a full partnership in the development of our national trade policy.
- Canada's trade policy must be founded on a movement toward freer trade. Protectionist trade policies initiated by Canada or our trading partners must be resisted.
- Canada must develop new structures, new approaches and new strategies in international marketing as part of its overall trade policy.
- The competitiveness of Canada's products is hindered by the lack of economies of scale, given the nation's small population, and vast distances to major markets. Governments, therefore, have a special role to serve as catalysts in the development and implementation of new marketing strategies.
- The achievement of Alberta's economic potential will benefit Canada as a whole. The Syncrude project, for example, provided extensive manufacturing opportunities for Canadian suppliers outside Alberta.
- The Government of Alberta is sensitive to the dangers of depending on certain major commodities for economic prosperity and recognizes the need for some economic diversification, primarily through upgrading

or processing resources or products within the province.

- While Alberta's grain and livestock sectors have left the province less vulnerable to extreme boom and bust phenomena experienced by more wheat dependent economies, further strengthening of the agricultural processing sector is required.
- Provincial ownership of natural resources has provided, and will continue to provide, Alberta with further opportunities to diversify its economy.
- Alberta's greatest strength is her people. Changes in employment patterns reflect the growing importance of the role women play in the economy. All Albertans must be given the opportunity to participate in our economic development.
- Alberta is proud of its role as Gateway to the North, and is supportive of the efforts of the peoples of Yukon and Northwest Territories to develop and expand their economies. As dynamic parts of our evolving nation, Yukon and Northwest Territories should be supported in their quest for self-government.
- The basis of Alberta's economic strategy is to:
  - build upon economic strengths, both human and natural, including a high level of technical skills, low-cost agricultural production, and vast reserves of available resources, such as natural gas and oil sands;
  - strengthen and expand the markets where Alberta products are and can be sold;
  - upgrade the degree of processing of Alberta's primary products;

- continue to foster new areas of economic activity based on Alberta's strengths and competitiveness; and
- promote economic growth in all parts of Alberta.

- To realize Canada's future potential, the following will be required:
  - Government economic policies must create an environment which encourages industries to adapt rapidly to world economic trends and developments.
  - Governments must foster an environment conducive to investment. Development of Canada's economic potential will require investment capital from both domestic and international sources. Policies must be implemented to encourage that investment.
  - Canada must constantly strive to improve productivity and maintain the world market competitiveness of its products. The development of corporate export consortia, capable of competing with international firms, must be encouraged to ensure world markets are penetrated and maintained.
  - Access to both the Canadian and international markets must be enhanced. The federal government and provincial governments must reject policies which distort the market economy and artificially create trade barriers. They should continue to press for greater access to international markets for our producers by working toward the reduction and elimination of trade distorting tariff and non-tariff barriers, as well as by increasing direct overseas contacts.
  - Increased trade promotion efforts must be made. Expanded export marketing activities and adequate export financing capabilities are integral to the expansion

and development of markets for Canadian goods.

- Provincial participation in international trade discussions should be expanded. International trade policies can have direct consequences for provincial economic policies, it is important that provinces be involved in those international multilateral or bilateral discussions which are likely to have an impact on specific provinces or industrial sectors.
- Canada must develop realistic national energy pricing policies. All Canadians will benefit if natural resources are priced to reflect market realities, and if the profits attributable to risk-taking are not overburdened, as they are now, with ill-conceived federal taxes. The federal government should not tax resources but should restrict its taxation to the profits derived from the development of the resources.
- Improvements to the national transportation system must be made. An efficient transportation system is vital to Canada's international trade efforts.
- Governments must encourage technological innovation. While the private sector should take the lead in applied research and product innovation, governments play an important role in encouraging research and development and the adoption of the new technologies necessary to maintain competitiveness. Governments have a responsibility to ensure that publicly funded research findings are shared with private industry.
- Efforts must be made to improve the capability of our young people to compete in the dynamic world market place of the next decade. The rapid technological developments in the world economy will

require many individuals to change jobs within their working careers. All men and women must be given the opportunity through educational facilities and job retraining programmes to acquire new technical skills to meet the changing needs of the market place.

- Governments federal and provincial, must be sensitive to the important role and special needs of small business, and create an atmosphere where the entrepreneur can be successful.
- Canada's Native peoples must be provided with economic opportunities. The aboriginal peoples must be assured of the opportunity to participate fully in the economy. In Alberta, the Native Venture Capital Corporation and the Business Assistance for Native Albertans Corporation will assist in this regard.
- The tourism and recreation industry must be expanded. Alberta has an enviable endowment of natural beauty which has formed the basis for one of the province's major industries: tourism and recreation. Policies must be implemented to maintain our competitive advantage in this area. Hosting major international events such as the XI Commonwealth Games (1978), the XII World University Games (1983) and the World Scout Jamboree (1983) enhances international recognition of Alberta. The hosting of the 1988 Winter Olympic Games will further the realization of Alberta's tourism and recreational potential. Alberta benefits from international cultural events held in the province; Heritage Days is an important annual cultural event which not only serves to bring Albertans closer together, but serves to make our international visitors more aware of the province and its dynamic qualities.

Conclusion

- The private sector is the driving force of the economy. Governments play an important role in providing a positive climate for private sector investment and initiative.
- Canada's future will depend to a significant degree on our ability to meet the challenges of an increasingly competitive world and to strengthen and expand our international markets. Working in a full partnership, both orders of government and the private sector must develop new marketing strategies for Canada.
- Canada's economic and social strength stems from the diversity of its provinces and regions and the talents of its people.
- Alberta's human and natural economic strengths are considerable. Building upon these strengths, Alberta contributes significantly to Canada's economic well-being. With appropriate economic, fiscal and trade policies, the province can make an even greater contribution to Canada's future.

Copies of the major discussion paper *"Alberta in Canada: Strength in Diversity"* are available from:

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QUALITY

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